**Prospectus**

**5,250,000 Common Shares of**

# Northern Electric
**COMPANY, LIMITED**

**With Warrants to purchase**
**2,625,000 Common Shares of**

# Bell Canada

These securities are offered in Units only, each Unit consisting of one Common Share of Northern Electric Company, Limited ("Northern Electric") and one-half of one Warrant of Bell Canada. A full Warrant is required to purchase one Common Share of Bell Canada. Of the 5,250,000 Units, 2,250,000 are being offered initially by underwriters in the United States and 3,000,000 by underwriters in Canada and Europe, subject to transfers of Units between the two underwriting groups. See "Underwriting and Plan of Distribution".

The Warrants will be exercisable on or prior to June 30, 1977 at Cdn. $46 per share (subject to adjustment). Upon issuance the Warrants will trade separately from the Common Shares of Northern Electric and will be quoted in the over-the-counter market in the United States in 100 Warrant lots.

The Common Shares of Northern Electric offered hereby are to be sold to the underwriters by Bell Canada. Northern Electric will not receive any of the proceeds. See "Principal Holder of Securities and Selling Shareholder".

The Common Shares of Northern Electric and Bell Canada are listed on the Montreal, Toronto and Vancouver Stock Exchanges. There is no established trading market for either Northern Electric or Bell Canada Common Shares in the United States. On October 6, 1975, the closing sale price on The Toronto Stock Exchange of Common Shares of Northern Electric was Cdn. $26½ and of Common Shares of Bell Canada was Cdn. $41. The offering price per Unit has been determined by agreement with the underwriters by taking into account primarily the market price of Common Shares of Northern Electric.

Application has been made to list the Common Shares of Northern Electric on the New York Stock Exchange.

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

| | Price to Public | Underwriting Commission | Proceeds to Bell Canada (1) |
|---|---|---|---|
| Units Initially Offered in United States (2) | | | |
| Per Unit | U.S. $25.85 | U.S. $1.22 | U.S. $24.63 |
| Total | U.S. $58,162,500 | U.S. $2,745,000 | U.S. $55,417,500 |
| Units Initially Offered in Canada | | | |
| Per Unit | Cdn. $26.50 | Cdn. $1.25 | Cdn. $25.25 |
| Total | Cdn. $79,500,000 | Cdn. $3,750,000 | Cdn. $75,750,000 |

1. Before deduction of expenses payable by Bell Canada estimated at Cdn. $580,000. Northern Electric will not pay any expenses in connection with this offering, other than for preparation of stock certificates and fees and expenses of listing on the New York Stock Exchange.
2. The price to the public of any additional Units which may be offered in the United States during the initial distribution will be the same as the Units initially offered.
3. For information concerning indemnification of the underwriters and possible gain or loss on currency conversions, see "Underwriting and Plan of Distribution".

The Units offered in the United States are offered when, as and if purchased by the U.S. Underwriters named within, subject to prior sale or withdrawal, cancellation or modification of the offer without notice, and subject to the approval of certain legal matters by counsel. It is expected that delivery of the securities comprising the Units will be made on or about October 22, 1975 at the office of Salomon Brothers, One New York Plaza, New York, New York.

**Salomon Brothers**

**Merrill Lynch, Pierce, Fenner & Smith**
**Incorporated**

**A. E. Ames & Co.**
**Incorporated**

**Wood Gundy**
**Incorporated**

The date of this Prospectus is October 7, 1975.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE UNITS, THE COMMON SHARES AND WARRANTS TO PURCHASE COMMON SHARES OF NORTHERN ELECTRIC AND THE WARRANTS TO PURCHASE COMMON SHARES, THE COMMON SHARES AND CONVERTIBLE PREFERRED SHARES OF BELL CANADA, AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE MONTREAL, TORONTO AND VANCOUVER STOCK EXCHANGES OR IN THE UNITED STATES OR CANADIAN OVER-THE-COUNTER MARKETS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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Until January 5, 1976 (90 days after the date of this Prospectus), all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as U.S. Underwriters and with respect to their unsold allotments or subscriptions.

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**Unless otherwise indicated, dollar amounts in this Prospectus are expressed in Canadian dollars.** Since June 1, 1970 the Government of Canada has permitted market forces to establish the exchange rate of the Canadian dollar against the U.S. dollar. The high and low spot rates for the U.S. dollar in Canada for the period June 1, 1970 through October 6, 1975, as reported by the Bank of Canada, were 1.0469 and 0.9576, respectively. **On October 6, 1975 the noon spot rate, as reported by the Bank of Canada, was 1.0256 (U.S. $1 equals Cdn. $1.0256).**

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Northern Electric and Bell Canada are Canadian corporations. Most of Northern Electric's and Bell Canada's directors and officers and the experts named herein are residents of Canada, and substantially all of Northern Electric's and Bell Canada's assets are located outside the United States. As a result it may be difficult for investors to effect service within the United States upon Northern Electric or Bell Canada or upon such directors, officers and experts, or to realize against them or the assets of Northern Electric or Bell Canada upon any judgments of courts of the United States predicated upon civil liabilities under the United States Securities Act of 1933, as amended. Mr. Clive V. Allen, General Counsel of Northern Electric, and Mr. Guy Houle, General Counsel of Bell Canada, have advised that there is doubt as to the enforceability in Canada of liabilities predicated solely upon such Securities Act.

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## PROSPECTUS SUMMARY

The following is a selective summary of certain information about Northern Electric and its subsidiaries and Bell Canada and its subsidiaries. This Prospectus Summary is not complete in itself. More detailed information about Northern Electric and its subsidiaries and Bell Canada and its subsidiaries can be found elsewhere in this Prospectus.

## THE OFFERING

The securities offered by this Prospectus are Units consisting of one Common Share of Northern Electric and one-half of one Warrant of Bell Canada. A full Warrant is required to purchase one Common Share of Bell Canada at the exercise price of Cdn. $46 per share on or prior to June 30, 1977 (subject to adjustment). 3,000,000 Units are being offered by underwriters in Canada and in Europe and 2,250,000 Units by underwriters in the United States, subject to transfers of Units between the two underwriting groups.

The net proceeds from the offering will form part of the general funds of Bell Canada and will be used for capital expenditures and working capital. Northern Electric will not receive any of the proceeds from the sale of the Units.

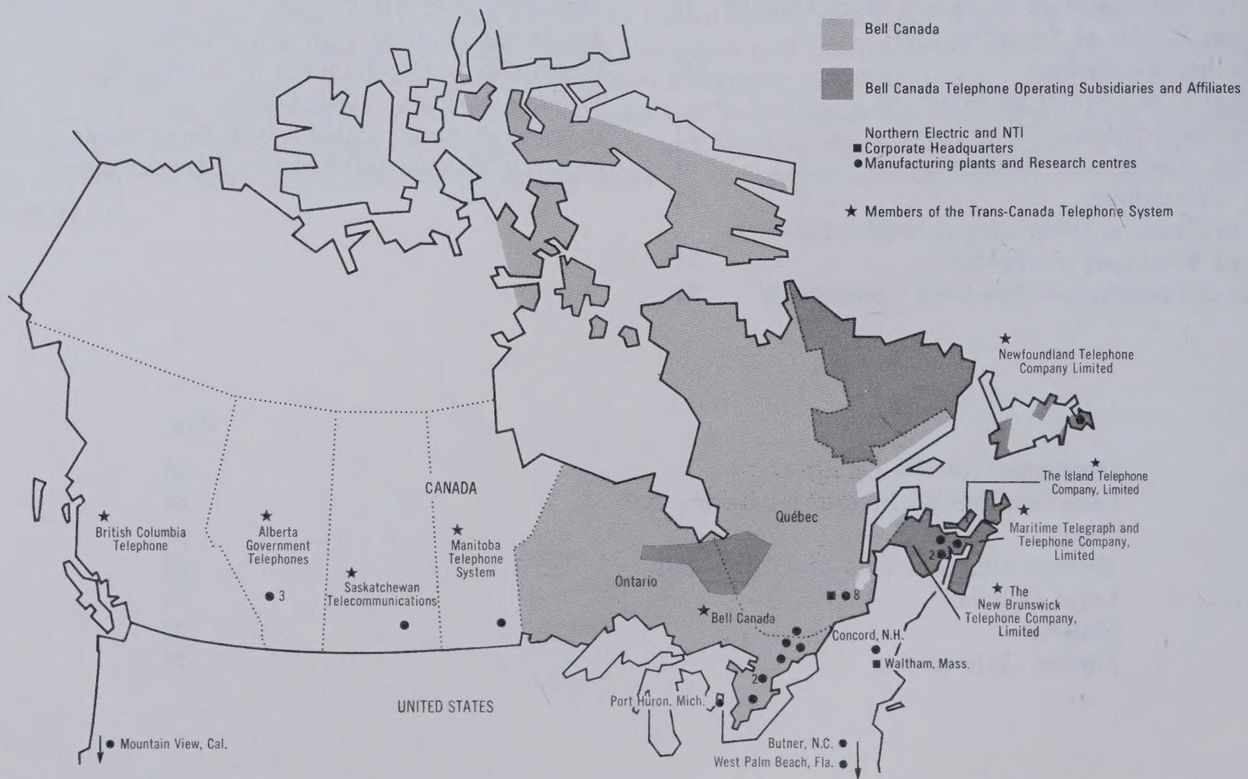
## NORTHERN ELECTRIC AND BELL CANADA

Northern Electric, at present owned 89% by Bell Canada and 11% by the public, manufactures a broad range of telecommunication equipment for sale in Canada as well as various other countries, primarily to the telephone industry. Northern Telecom, Inc. ("NTI"), a wholly-owned subsidiary of Northern Electric, manufactures and sells telecommunication equipment in the United States. Subsidiaries of Northern Electric distribute a wide range of electrical and industrial products. In 1974 about 46% of Northern Electric's consolidated sales were to purchasers not affiliated with Bell Canada or its subsidiaries. After the offering and assuming the exercise of all outstanding warrants to purchase Northern Electric Common Shares, Bell Canada will own approximately 62% of the outstanding Common Shares of Northern Electric.

Bell Canada and its telephone subsidiaries, the largest Canadian supplier of telecommunication services, operate about 70% of Canada's telephones and have over 95% of the telephones in their service area. As members of the Trans-Canada Telephone System, they participate in the operation of a coast-to-coast microwave radio relay network of more than 37,500 miles, of which over 17,000 miles are within their service area.

Bell-Northern Research Ltd., jointly owned by Bell Canada and Northern Electric, is Canada's largest industrial research and development organization, carrying out research, design, development, long-range planning and systems engineering in all fields of telecommunications.

The map below depicts the service area of Bell Canada and its telephone subsidiaries and Northern Electric's and NTI's principal manufacturing plants and research centres located in North America.



## NORTHERN ELECTRIC AND SUBSIDIARIES

The following tables set forth certain financial information for Northern Electric and its subsidiaries:

| | Year ended December 31, (thousands of dollars) | | Six months ended June 30, (thousands of dollars) | |
|---|---|---|---|---|
| | 1970 | 1974 | 1974 | 1975 |
| Sales | $563,611 | $970,711 | $459,977 | $546,151 |
| Working Capital* | $188,269 | $283,129 | $220,887 | $303,832 |
| Total Assets* | $371,446 | $567,795 | $565,896 | $639,006 |
| Total Long Term Debt* | $ 78,913 | $104,547 | $ 67,709 | $102,928 |
| Total Equity* (including minority interest) | $192,410 | $288,944 | $273,877 | $319,810 |
| Capital Expenditures | $ 20,924 | $ 33,728 | $ 18,005 | $ 12,570 |

*At end of period.

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| Net Earnings (millions) | $4 | $13 | $20 | $32 | $54 | $29 | $37 |
| Earnings per Common Share (before extraordinary items)** | $0.21 | $0.54 | $0.86 | $1.35 | $2.05 | $1.10 | $1.48 |
| Dividends Declared per Common Share** | $0.375 | $0.502 | $0.50 | $0.50 | $0.525 | $0.25 | $0.30 |
| Equity per Common Share (at end of period)** | $7.77 | $7.80 | $8.15 | $9.37 | $10.88 | $10.22 | $11.97 |

**Reflects 13 for 1 subdivision of Common Shares on October 24, 1973.

## BELL CANADA AND SUBSIDIARIES

The following tables set forth certain financial information and operational statistics for Bell Canada and its subsidiaries (including Northern Electric and its subsidiaries):

| | Year ended December 31, (thousands) | | Six months ended June 30, (thousands) | |
|---|---|---|---|---|
| | 1970 | 1974 | 1974 | 1975 |
| Operating revenues | $1,058,511 | $1,693,380 | $ 816,698 | $ 936,138 |
| Sales revenues — manufacturing and distributing | 563,611 | 972,226 | 460,840 | 546,887 |
| Total | $1,622,122 | $2,665,606 | $1,277,538 | $1,483,025 |
| Working Capital* | $ 187,767 | $ 309,572 | $ 270,580 | $ 384,884 |
| Total Assets* | $3,835,807 | $5,820,597 | $5,478,819 | $6,289,063 |
| Total Debt* | $1,662,253 | $2,444,143 | $2,259,438 | $2,627,441 |
| Total Equity* (including minority interest) | $1,733,316 | $2,357,041 | $2,222,390 | $2,562,030 |
| Capital Expenditures | $ 481,402 | $ 982,992 | $ 446,104 | $ 552,380 |
| Telephones in service* | 6,780 | 8,566 | 8,307 | 8,731 |
| Long distance messages | 326,000 | 522,000 | 250,000 | 275,000 |
| Employees*—Northern Electric and subsidiaries | 25 | 24 | 26 | 23 |
| —Bell Canada and other subsidiaries | 45 | 59 | 58 | 59 |

*At end of period.

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| Net Income Applicable to Common Shares (millions) | $ 127 | $ 142 | $ 162 | $ 191 | $ 207 | $ 109 | $ 104 |
| Earnings per Common Share (before extraordinary items) | $ 3.50 | $ 3.87 | $ 4.44 | $ 5.04 | $ 5.57 | $ 2.95 | $ 2.78 |
| Assuming full conversion of Convertible Preferred Shares | $ 3.49 | $ 3.82 | $ 4.32 | $ 4.86 | $ 5.34 | $ 2.82 | $ 2.66 |
| Dividends Declared per Common Share | $ 2.50 | $ 2.65 | $ 2.65 | $ 2.85 | $ 3.12 | $ 1.56 | $ 1.72 |
| Equity per Common Share (at end of period) | $42.50 | $43.60 | $45.30 | $47.79 | $50.10 | $49.18 | $50.94 |

## USE OF PROCEEDS BY BELL CANADA

The net proceeds from the sale of the 5,250,000 Units, estimated at Cdn. $132,006,000, will be received by Bell Canada. They will form part of the general funds of Bell Canada and, after Canadian capital gains tax, will be used to pay for part of Bell Canada's expenditures for the acquisition and construction of additions and improvements to its telecommunication system and to provide additional working capital. It is anticipated that any funds received on exercise of the Warrants will be used for the same purposes. See "Capital Expenditures" of Bell Canada on page 30.

*For further information with respect to Bell Canada, see "Bell Canada". The Consolidated Income Statement of Bell Canada and Subsidiary Companies, the Notes thereto and Management's Discussion and Analysis thereof are on pages 34-37.*

## Northern Electric COMPANY, LIMITED

Northern Electric Company, Limited ("Northern Electric") was incorporated under the laws of Canada by letters patent dated January 5, 1914 and is a subsidiary of Bell Canada, a Canadian corporation which is the largest supplier of telecommunication services in Canada. Northern Electric and its subsidiaries manufacture a broad line of telecommunication equipment for sale throughout the world, primarily to the Canadian telephone industry. NTI, a wholly-owned subsidiary of Northern Electric, manufactures and sells telecommunication equipment in the United States. In 1974, approximately 11% of consolidated sales of Northern Electric were in the United States and 4% outside Canada and the United States. Nedco (1975) Ltd., a wholly-owned subsidiary of Northern Electric, and its subsidiaries distribute in Canada a wide range of electrical and industrial products. In 1974, about 46% of Northern Electric's consolidated sales were to purchasers not affiliated with Bell Canada or its subsidiaries.

In December 1973, Northern Electric, then a wholly-owned subsidiary of Bell Canada, offered publicly in Canada 2,600,000 authorized but unissued Common Shares. In October 1974, Bell Canada sold 2,000,000 warrants, exercisable prior to December 1, 1979, enabling holders to purchase from Bell Canada 2,000,000 Common Shares of Northern Electric at $21.50 per share. At July 31, 1975 Bell Canada owned approximately 89% of the outstanding Common Shares of Northern Electric and after completion of the offering of 5,250,000 Units and assuming exercise of outstanding warrants (1,998,724 at September 30, 1975), approximately 62% of Northern Electric's Common Shares will be owned by Bell Canada. It is the intention of Bell Canada to maintain effective control of Northern Electric.

Northern Electric's head office is at 1600 Dorchester Boulevard West, Montreal, Quebec, Canada H3H 1R1; telephone number (514) 931-5711.

## DIVIDENDS AND PRICE RANGE OF COMMON SHARES OF NORTHERN ELECTRIC

During the five years ended December 31, 1974 and the six months ended June 30, 1975, Northern Electric paid dividends on its Common Shares as follows:

| | Aggregate | Per Share(1) |
|---|---|---|
| 1970 | $ 8,836,000 | $0.375 |
| 1971 | 11,832,000(2) | 0.502 |
| 1972 | 11,781,000 | 0.50 |
| 1973 | 11,781,000 | 0.50 |
| 1974 | 13,735,000 | 0.525 |
| 1975 (six months) | 7,927,000 | 0.30 |

1. Reflects 13 for 1 subdivision of Common Shares on October 24, 1973.
2. Includes special non-cash dividend of $51,000 equal to $0.002 per share.

Northern Electric paid its third quarter dividend of $0.15 per share on September 30, 1975. While Northern Electric intends to pursue a policy of paying regular quarterly dividends to the holders of its Common Shares, the level of future dividends will be decided upon by the Directors of Northern Electric in the light of conditions from time to time. (See "Canadian Taxes" under "Taxes" for information as to Canadian withholding taxes.)

Common Shares of Northern Electric were offered publicly in Canada for the first time on December 4, 1973 at a price of $15 per share. The shares were listed on the Montreal, Toronto and Vancouver Stock Exchanges in January 1974. Prior to this offering there has been no established trading market for the Common Shares of Northern Electric in the United States. The following table sets forth the high and low closing sale prices on the Montreal and Toronto Stock Exchanges of the Common Shares of Northern Electric for the periods indicated:

| Year | | Montreal | | Toronto | |
|---|---|---|---|---|---|
| | | High | Low | High | Low |
| 1974 | First Quarter (from date of listing) | $22¼ | $15½ | $22⅜ | $15½ |
| | Second Quarter | 23½ | 19¾ | 23¾ | 19⅞ |
| | Third Quarter | 25 | 19¼ | 25¼ | 19¼ |
| | Fourth Quarter | 22 | 14½ | 22¼ | 14⅝ |
| 1975 | First Quarter | 23½ | 16⅜ | 23⅝ | 16¼ |
| | Second Quarter | 29 | 21½ | 29⅛ | 21½ |
| | Third Quarter | 31⅜ | 26¼ | 31⅜ | 26 |
| | October (through October 6) | 27½ | 26½ | 27½ | 26½ |

On October 6, 1975, the closing sale price on The Toronto Stock Exchange was $26½ (equivalent to U.S. $25.84 based on the noon spot rate as reported by the Bank of Canada).

## CONSOLIDATED CAPITALIZATION OF NORTHERN ELECTRIC AND SUBSIDIARY COMPANIES

**(dollars in thousands)**

| | Authorized | Outstanding (1) | |
|---|---|---|---|
| | | June 30, 1975 | July 31, 1975 |
| LONG TERM DEBT | | | |
| **(including current portion) (2)** | (3) | | |
| Northern Electric | | $ 94,255 | $ 59,255 |
| Subsidiary Companies | | 11,880 | 3,151 |
| **Total Long Term Debt** | | 106,135 | 62,406 |
| EQUITY | | | |
| Northern Electric | | | |
| Common Shares without nominal or par value | (4) | 158,982 | 158,982 |
| | | (26,469,287 shs.) | (26,469,287 shs.) |
| Retained Earnings | | 157,842 | 157,842 (5) |
| **Applicable to Common Shares of Northern Electric** | | 316,824 | 316,824 |
| Minority interest in Subsidiary Companies | | 2,986 | 2,986 (5) |
| **Total Equity** | | 319,810 | 319,810 |
| **Commitments (6)** | | | |
| TOTAL CONSOLIDATED CAPITALIZATION | | $425,945 | $382,216 |

**Notes:**

1. Northern Electric and its subsidiaries will not receive any part of the proceeds from the sale of its Common Shares offered by this Prospectus. All such proceeds will be received by Bell Canada.
2. Excludes amounts due to banks of $31,625,000 at June 30, 1975, of which $10,296,000 represents interest bearing short term debt of a subsidiary used for working capital purposes and the remainder disbursement cheques in transit.
3. For details of long term debt, reference is made to Notes 5 and 15 of the Notes to Consolidated Financial Statements of Northern Electric and Subsidiary Companies.
4. Northern Electric's authorized capital consists of 39,000,000 Common Shares without nominal or par value for an aggregate value not exceeding $225,000,000.
5. As of June 30, 1975.
6. For details of commitments, reference is made to Lease Commitments in Note 7 of the Notes to Consolidated Financial Statements of Northern Electric and Subsidiary Companies.

## CONSOLIDATED STATEMENT OF EARNINGS OF NORTHERN ELECTRIC AND SUBSIDIARY COMPANIES (Note A)

The following Consolidated Statement of Earnings of Northern Electric and its subsidiary companies for the five years ended December 31, 1974, and for the six months ended June 30, 1974 and 1975, has been examined by Touche Ross & Co., independent chartered accountants, whose report is included elsewhere herein. The results for the six months ended June 30, 1975 are not necessarily indicative of the results that will be realized for the full year. This statement should be read in conjunction with the other financial statements and related notes included elsewhere herein.

| (thousands of dollars) | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | **1970** | **1971** | **1972** | **1973** | **1974** | **1974** | **1975** |
| **Sales** (Note B) | **$563,611** | **$576,296** | **$534,313** | **$612,821** | **$970,711** | **$459,977** | **$546,151** |
| Less: Cost of sales | 469,827 | 465,623 | 405,425 | 452,111 | 725,289 | 338,637 | 398,716 |
| Selling, general and administrative expenses | 51,691 | 52,017 | 55,039 | 66,622 | 95,151 | 43,203 | 50,716 |
| Research and development expenses | 30,996 | 29,677 | 28,039 | 32,656 | 44,110 | 19,649 | 23,602 |
| Total | 552,514 | 547,317 | 488,503 | 551,389 | 864,550 | 401,489 | 473,034 |
| **Earnings from Operations** | **11,097** | **28,979** | **45,810** | **61,432** | **106,161** | **58,488** | **73,117** |
| Income from investments | 1,562 | 1,309 | 2,080 | 3,816 | 2,945 | 2,417 | 1,170 |
| | 12,659 | 30,288 | 47,890 | 65,248 | 109,106 | 60,905 | 74,287 |
| **Interest charges:** | | | | | | | |
| Long term debt | 4,313 | 5,439 | 5,328 | 5,045 | 4,605 | 2,648 | 4,127 |
| Other | 792 | 279 | 308 | 1,545 | 3,114 | 1,308 | 279 |
| Total | 5,105 | 5,718 | 5,636 | 6,590 | 7,719 | 3,956 | 4,406 |
| **Earnings before Underlisted Items** | **7,554** | **24,570** | **42,254** | **58,658** | **101,387** | **56,949** | **69,881** |
| Provision for income taxes (Note C) | 5,290 | 14,470 | 23,608 | 30,611 | 50,663 | 28,539 | 30,323 |
| | 2,264 | 10,100 | 18,646 | 28,047 | 50,724 | 28,410 | 39,558 |
| Minority interest in net loss (profit) of subsidiary companies before extraordinary items | 2,761 | 2,511 | 1,649 | 3,983 | 3,029 | 423 | (292) |
| **Earnings before Extraordinary Items** | **5,025** | **12,611** | **20,295** | **32,030** | **53,753** | **28,833** | **39,266** |
| Extraordinary items (Notes A and D) | (958) | — | (197) | — | — | — | (2,723) |
| **Net Earnings** | **$ 4,067** | **$ 12,611** | **$ 20,098** | **$ 32,030** | **$ 53,753** | **$ 28,833** | **$ 36,543** |
| **Earnings per Common Share*** | | | | | | | |
| — before extraordinary items | $0.21 | $0.54 | $0.86 | $1.35 | $2.05 | $1.10 | $1.48 |
| — after extraordinary items | $0.17 | $0.54 | $0.85 | $1.35 | $2.05 | $1.10 | $1.38 |
| *Based on average number of Common Shares outstanding (thousands) (Note 6) | 23,562 | 23,562 | 23,562 | 23,671 | 26,164 | 26,162 | 26,396 |
| **Dividends Declared per Common Share** | **$0.375** | **$0.502** | **$0.50** | **$0.50** | **$0.525** | **$0.25** | **$0.30** |

Note references are to Notes to Consolidated Statement of Earnings of Northern Electric and Subsidiary Companies and to Notes to Consolidated Financial Statements of Northern Electric and Subsidiary Companies.

## NOTES TO CONSOLIDATED STATEMENT OF EARNINGS OF NORTHERN ELECTRIC AND SUBSIDIARY COMPANIES

*These notes should be read in conjunction with the Notes to Consolidated Financial Statements of Northern Electric and Subsidiary Companies.*

### A. Disposal of a Segment of a Business

The extraordinary item of $2,723,000 for the six months ended June 30, 1975 represents a provision for estimated costs of the winding-down of the semiconductor business of Microsystems International Limited ("Microsystems"). This presentation is in accordance with Canadian reporting practices.

Under U.S. practices, the disposal of a segment of a business requires different reporting; however, Net Earnings and Earnings per Common Share are identical under both Canadian and U.S. reporting practices. The classification of this item as a "disposal of a segment of a business" under U.S. reporting practices would have resulted in the following revised figures in the Consolidated Statement of Earnings:

(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| **Sales — as reported** | **$563,611** | **$576,296** | **$534,313** | **$612,821** | **$970,711** | **$459,977** | **$546,151** |
| Less: Sales of discontinued operations | 228 | 1,542 | 7,843 | 15,951 | 23,712 | 14,012 | 4,850 |
| **Sales of Continuing Operations** | **$563,383** | **$574,754** | **$526,470** | **$596,870** | **$946,999** | **$445,965** | **$541,301** |
| **Net Earnings from Continuing Operations** | **9,316** | **16,479** | **22,631** | **38,071** | **62,158** | **30,523** | **40,975** |
| Discontinued operations (net of minority interest) — | | | | | | | |
| Loss from operations of discontinued business | 5,249 | 3,868 | 2,533 | 6,041 | 8,405 | 1,690 | 1,709* |
| Loss on winding-down of discontinued business (net of income taxes of $2,100) | — | — | — | — | — | — | 2,723 |
| | 5,249 | 3,868 | 2,533 | 6,041 | 8,405 | 1,690 | 4,432 |
| **Net Earnings** | **$ 4,067** | **$ 12,611** | **$ 20,098** | **$ 32,030** | **$ 53,753** | **$ 28,833** | **$ 36,543** |
| **Earnings per Common Share** (after extraordinary items) | | | | | | | |
| — From continuing operations | $0.40 | $0.70 | $0.97 | $1.61 | $2.38 | $1.17 | $1.55 |
| — From discontinued operations (losses) | $(0.23) | $(0.16) | $(0.12) | $(0.26) | $(0.33) | $(0.07) | $(0.17) |
| — Net Earnings | $0.17 | $0.54 | $0.85 | $1.35 | $2.05 | $1.10 | $1.38 |

*Net of income taxes of $1,131. See Note 1 — *Income Taxes*

### B. Sales comprise:

(thousands of dollars)

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 1972 | 1973 | 1974 | 1974 | 1975 |
| Sales to: | | | | | |
| Bell Canada | $297,983 | $316,983 | $461,883 | $226,859 | $278,930 |
| Telephone subsidiaries of Bell Canada | 22,231 | 29,406 | 60,814 | 26,552 | 36,241 |
| Sub-total | 320,214 | 346,389 | 522,697 | 253,411 | 315,171 |
| Sales to others | 214,099 | 266,432 | 448,014 | 206,566 | 230,980 |
| Total Sales | $534,313 | $612,821 | $970,711 | $459,977 | $546,151 |

### C. Provision for Income Taxes

Northern Electric and subsidiaries' effective income tax rate as determined from the Consolidated Statement of Earnings (aggregate income taxes divided by the sum of aggregate income taxes and net earnings) was different from the statutory (Canadian Federal and Provincial) income tax rate for each of the periods shown and the differences are attributable to the following factors:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 1972 | 1973 | 1974 | 1974 | 1975 |
| Statutory income tax rate | 48.5% | 51.0% | 52.5% | 51.3% | 51.5% |
| i) Reduction of Canadian Federal taxes applicable to manufacturing profits | — | (8.2) | (9.2) | (8.5) | (9.5) |
| ii) Net loss of subsidiaries (including investment write-off) not allowed as an expense for tax | 5.8 | 8.2 | 8.4 | 5.1 | 1.1 |
| iii) Difference due to minority interest in net (loss) profit of subsidiaries | (2.0) | (3.2) | (1.5) | (0.4) | 0.2 |
| iv) Other miscellaneous differences between the calculations of taxable income and book income before taxes | 1.8 | 1.1 | (1.7) | 2.2 | (0.3) |
| | 54.1 | 48.9 | 48.5 | 49.7 | 43.0 |
| Extraordinary items | (3.0) | — | — | — | 0.6 |
| Effective income tax rate | 51.1% | 48.9% | 48.5% | 49.7% | 43.6% |

Details of provision for income taxes are as follows:

| | (thousands of dollars) | | | | |
|---|---|---|---|---|---|
| | Year ended December 31, | | | Six months ended June 30, | |
| | 1972 | 1973 | 1974 | 1974 | 1975 |
| Current | $ 22,936 | $ 32,955 | $ 50,935 | $ 30,480 | $ 32,563 |
| Deferred | 672 | (2,344) | ( 272) | (1,941) | (2,240) |
| Total provision for income taxes | $ 23,608 | $ 30,611 | $ 50,663 | $ 28,539 | $ 30,323 |

### D. Extraordinary Items

a) 1970

| | |
|---|---|
| Provision for loss on short term investment net of minority interest ($.04 per Common Share) | $ (958,000) |

b) 1972

| | |
|---|---|
| 1) Gain on sale of land and buildings (at independent appraisal value of $5,050,000) to Bell Canada, the parent company, less applicable income taxes of $99,000 ($.11 per Common Share) | $ 2,685,000 |
| 2) Provision for cost due to relocation of manufacturing operations, less applicable income taxes of $2,704,000 ($.12 per Common Share) | (2,882,000) |
| | $ (197,000) |

c) 1975

| | |
|---|---|
| Provision for estimated costs of winding-down of semiconductor business of Microsystems, less applicable income taxes of $2,100,000 and minority interest of $177,000 ($.10 per Common Share) (see Note A) | $(2,723,000) |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED STATEMENT OF EARNINGS OF NORTHERN ELECTRIC AND SUBSIDIARY COMPANIES

Sales increased 14.7% in 1973 over 1972, 58.4% in 1974 over the previous year and 18.7% for the six months ended June 30, 1975 over the same period in 1974. (Management considers that the sales increase in 1974 over 1973 may have been accentuated to some degree by the effects of a strike in mid 1973 at its Canadian plants.) Sales increases resulted principally from higher sales volume of established company manufactured products and successful introduction of several newly developed products, including the SP-1 electronic switching system and electronic private automatic branch exchange systems, together with various price increases. Penetration into new markets, particularly in the United States, together with an increased share of the higher level of expenditures incurred by certain major customers, especially in 1974, also accounted for a significant increase. In addition, sales of non-company manufactured products increased substantially over the period.

Cost of sales increased by 11.5% in 1973 over 1972, 60.4% in 1974 over the previous year and 17.7% for the six months ended June 30, 1975 over the same period in 1974, but remained virtually unchanged in relation to sales. During this period unit costs of materials and labour escalated as a result of inflation but offsets resulted from the phase-out of obsolete products and inefficient facilities together with improved control of operations through decentralization. In 1973 these actions more than offset the increase in unit costs of materials and labour resulting in a reduction of approximately 2% in the ratio of cost of sales to sales compared with 1972.

The number of employees increased only moderately over the period January 1, 1972 to June 30, 1975, from 21,723 to 22,808, with the result that sales per employee rose from $26,020 in 1972 to $40,573 in 1974 (based on the average of the beginning and ending numbers of employees in each year) and has increased to $23,141 for the six months ended June 30, 1975 from $18,627 for the same period in 1974.

Return on shareholders' equity (net earnings divided by the average of the beginning and ending shareholders' equity for each year) increased from 10.7% in 1972 to 14.6% in 1973 and to 20.3% in 1974 and has increased to 24.2% on an annual basis for the six months ended June 30, 1975, compared with 22.4% on an annual basis for the same period in 1974. Return on investment employed (net earnings plus the after tax cost of interest on long term debt divided by the average of the beginning and ending totals of long term debt and shareholders' equity for each year) increased from 8.6% in 1972 to 11.9% in 1973 and to 15.9% in 1974 and has increased to 19.1% on an annual basis for the six months ended June 30, 1975, compared with 18.5% on an annual basis for the same period in 1974.

On the basis of information available to date, management estimates that net earnings for the third quarter of 1975 increased over net earnings for the third quarter of 1974, although the percentage increase was lower than for the first six months of 1975 as compared with the first six months of 1974. Management also estimates that, after adjustments for results from discontinued operations of a subsidiary, sales and earnings from continuing operations for the third quarter of 1975 were approximately equal to sales and earnings from continuing operations for the comparable period in 1974.

**Other Items**

Selling, general and administrative expenses increased 42.8% in 1974 over 1973 and 17.4% for the six months ended June 30, 1975 over the same period in 1974. These increases resulted principally from an increase in the number of employees in this category as a result of growth together with inflation-related increases in compensation costs.

Research and development expenses increased 35.1% in 1974 over 1973 and 20.1% for the six months ended June 30, 1975 over the same period in 1974 principally as a result of inflation-related compensation increases during the period 1973 to June 30, 1975 together with increased product development activity, which accelerated significantly in 1974.

Income from investments fluctuated in relation to the availability of cash and varying interest rates.

Interest charges increased during the period 1973 to June 30, 1975 due principally to higher borrowings to meet business needs coupled with fluctuating interest rates trending upward.

Provision for income taxes increased significantly in 1974 over 1973 due principally to higher earnings subject to such taxes.

Minority interest in net loss increased in 1973 over 1972 due to the substantially higher loss of a subsidiary and decreased in 1974 due principally to higher earnings of another subsidiary.

**Supplementary Information — Statement of Earnings**

Maintenance and repairs increased 62.3% in 1974 over 1973 and 27.7% for the six months ended June 30, 1975 over the same period in 1974 as a result of increased manufacturing activities and facilities.

Depreciation increased 55.5% in 1974 over 1973 as a result of increased manufacturing facilities and upward adjustment to depreciation rates to recognize reductions in the expected useful lives of certain types of machinery and equipment, as well as providing fully for certain items considered by management to be surplus to requirements.

Payroll tax increases in 1973 over 1972 and 1974 over 1973 resulted from the increase in payroll costs due to higher labour rates and a slightly increased number of employees.

Increases in rental expenses in 1973 over 1972 and 1974 over 1973 are attributable principally to additional leased space required to meet increased manufacturing, distributing and marketing activities.

## BUSINESS OF NORTHERN ELECTRIC AND ITS SUBSIDIARIES

Northern Electric is the largest telecommunication equipment manufacturer in Canada. During the 1960's Northern Electric established itself in international markets. About 15% of its consolidated sales in 1974 were outside Canada. Northern Electric, through its subsidiaries, is one of the largest distributors of electrical and industrial products in Canada. Sales (broken down by principal product groups) and contribution to profits (earnings before income taxes, minority interest and extraordinary items) attributable to manufacturing and distributing of Northern Electric and its subsidiaries have been as follows:

(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| Sales | | | | | | | |
| Manufacturing[1] | | | | | | | |
| Switching | $187,713 | $178,753 | $161,210 | $177,122 | $313,705 | $146,369 | $197,935 |
| Wire and cable | 143,901 | 135,561 | 119,388 | 137,551 | 190,815 | 93,921 | 93,016 |
| Subscriber apparatus and business communications systems | 86,880 | 94,953 | 106,707 | 117,401 | 181,378 | 89,188 | 98,797 |
| Transmission | 45,231 | 65,114 | 56,049 | 69,556 | 103,208 | 46,991 | 74,438 |
| Others | 228 | 1,542 | 8,117 | 16,056 | 23,676 | 15,030 | 6,370 |
| | 463,953 | 475,923 | 451,471 | 517,686 | 812,782 | 391,499 | 470,556 |
| Distributing | 99,658 | 100,373 | 82,842 | 95,135 | 157,929 | 68,478 | 75,595 |
| | $563,611 | $576,296 | $534,313 | $612,821 | $970,711 | $459,977 | $546,151 |
| Contribution to Profits | | | | | | | |
| Manufacturing[1] | $ 4,618 | $ 23,470 | $ 40,149 | $ 54,670 | $ 93,051 | $ 53,235 | $ 66,509 |
| Distributing | 2,936 | 1,100 | 2,105 | 3,988 | 8,336 | 3,714 | 3,372 |
| | $ 7,554 | $ 24,570 | $ 42,254 | $ 58,658 | $101,387 | $ 56,949 | $ 69,881 |

1. Includes sales and contribution to profits of Northern Electric manufactured products distributed by subsidiaries.

### Manufacturing

Telecommunication products manufactured by Northern Electric include equipment and apparatus (central office switching equipment, subscriber apparatus and business communications systems and transmission equipment) and wire and cable.

Switching equipment is used in telephone exchanges to connect both local and long distance calls. The latest generation of switching equipment uses computer control techniques and electronic circuitry. In late 1971, Northern Electric placed in commercial service the first electronic switching system in the SP-1 family of stored program computer controlled electronic switching systems and had installed 60 such systems by the end of June 1975. From the date of the first order in 1969, the cumulative number of SP-1 systems ordered to June 30, 1975 was 131 at a value of approximately $363,000,000 with a significant number being from telephone operating companies in the United States. Open orders at June 30, 1975 amounted to approximately $187,000,000.

Subscriber apparatus is the equipment used on the subscriber's premises and consists mainly of telephone sets and peripheral devices such as speaker units. Northern Electric manufactures dial telephones, key telephone sets, push-button telephones that can also serve as computer input devices, CONTEMPRA* telephones, and CENTURION* single-slot coin telephones. The LOGIC* multiline station equipment series provides plug-in facilities for telephone accessories such as loud-speaking units. COMPANION* handsfree units, introduced in 1973, are designed for both the residential and business markets.

Northern Electric manufactures business communications equipment including data systems, key telephone systems, intercom systems, cordless switchboards, manual and private automatic branch exchanges and other specifically designed equipment employing new technological developments such as microcircuits. PULSE*, a fully electronic private automatic branch exchange (EPABX) introduced in 1972, and SL-1, a larger digital EPABX now being introduced, are examples of such developments.

*denotes trademarks.

Transmission equipment carries telecommunication traffic between central exchanges. It includes microwave radio circuits, satellite communications systems and electronic equipment used with cables. Northern Electric produces a broad line of high performance transmission systems, including multiplex, microwave radio, cable carrier and line equipment. For example, the MA-5 multiplex combines up to 2700 voice channels on a single transmission path. Northern Electric has introduced several new products such as the RA-3 microwave radio for long-haul, heavy-route microwave systems, which is in widespread use in Canada and has been ordered by Western Union Telegraph Company and by RCA Alascom in the United States. Another new product, the LD-4 digital coaxial carrier system, provides 20,000 two-way voice channels on a 12-tube coaxial cable. The first major LD-4 system has been installed for the new, high-capacity Montreal-Ottawa-Toronto communications route.

Northern Electric has supplied communications equipment for the international INTELSAT IV series of satellites and for the Anik Canadian domestic satellites. Equipment has been delivered for United States domestic satellite systems, including four communications platforms for Western Union Telegraph Company, and is currently being manufactured for the Indonesian satellite.

Wire and cable is produced for telephone operating companies as well as the electrical power industry and ranges from telephone wires to high-capacity communications transmission cable. Northern Electric operates its own rod rolling mill. Power cables, composite coaxial cables, switchboard cables, pulp-insulated exchange cables and polyethylene insulated cables are manufactured for a variety of users.

Other products are manufactured for use in the installation and connection of wire and cable including terminals and closures, loading devices, protectors, heat coils, back boards and cases.

**Markets**

*Canada*

The primary market in Canada for telecommunication equipment consists of telephone operating companies connecting about 12.7 million telephones, of which Bell Canada and its subsidiaries account for about 70%. In 1974, more than 760,000 telephones were added to the Canadian network, and in the five year period ended December 31, 1974 the number of telephones in Canada increased from 9 million to about 12.4 million.

Expenditures on telephone sets represent a small part of the overall annual capital expenditures by telephone operating companies. Industry statistics show that in Canada in 1974 telephone companies spent more than $1,800 for each new telephone added. While this amount includes the cost of buildings, vehicles and other items, most of the expenditures are for telecommunication equipment. Spending by Canadian telephone companies as evidenced by construction and equipment expenditures rose from $653 million in 1969 to $1,437 million in 1974.

Bell Canada and its telephone subsidiaries are in the aggregate Northern Electric's largest customer. At June 30, 1975 Bell Canada and its telephone subsidiaries had on order from Northern Electric, for future delivery, equipment and materials with a total sales value of approximately $223 million and Northern Electric had orders from third parties of approximately $233 million. Approximately 60% of these orders is expected to be delivered in 1975. At June 30, 1974 Northern Electric's backlog of orders from Bell Canada and its telephone subsidiaries totalled approximately $200 million and from third parties totalled approximately $244 million. The backlog of orders is composed of a wide variety of telecommunication equipment, most of which is specially designed and manufactured to customer requirements and is ordered well in advance of required delivery time in order to ensure readiness for installation in accordance with the customer's installation schedule. For information as to the impact on capital expenditures of Bell Canada of recent regulatory decisions, see "Regulation" under "Business of Bell Canada and its Subsidiaries". For a description of the supply contract between Northern Electric and Bell Canada, see "Certain Contracts of Northern Electric".

*United States — Northern Telecom, Inc.*

Northern Electric's primary market in the United States consists of telephone operating companies independent of the U.S. Bell System (American Telephone and Telegraph Company ("AT&T") and its subsidiaries) connecting about 26 million telephones; of this market approximately 12 million telephones belong to the General Telephone & Electronics ("GTE") group which manufactures most of its own equipment. Northern Electric also makes sales of some products from time to time to the U.S. Bell System which represents over 80% of the United States telephone market.

Northern Telecom, Inc. ("NTI"), a wholly-owned subsidiary with its headquarters in Waltham, Massachusetts, was formed in 1971 to manufacture and market telecommunication equipment in the United States and currently has 5 plants operating in the United States including a telephone apparatus assembly plant at Port Huron,

Michigan and a telecommunication transmission test equipment manufacturing plant in Concord, New Hampshire. In 1974, manufacturing facilities were completed in Butner, North Carolina for the production of electronic switching systems and in Mountain View, California for the production of private automatic branch exchanges and other telecommunication products; NTI also acquired plant facilities near West Palm Beach, Florida for the production of printed circuit boards and other products. NTI markets in the United States all products referred to under "Manufacturing". It is one of the few companies selling such extensive and varied telecommunication product lines in the United States.

NTI's sales and net earnings have grown from U.S. $27,000,000 and U.S. $1,600,000, respectively, in 1972 to U.S. $93,200,000 and to U.S. $3,900,000, respectively, in 1974. For the six months ended June 30, 1975 sales totalled U.S. $40,400,000 and net earnings were U.S. $900,000, compared with U.S. $46,200,000 and U.S. $2,000,000, respectively, for the six months ended June 30, 1974.

*Other Markets*

Markets outside North America include telecommunication systems owned primarily by governments. Although the potential growth of these markets is considered higher than that of North America, access to them is more difficult because of government policies favouring purchases from traditional suppliers and the different technical requirements of the many countries involved.

In 1967, Northern Electric incorporated a manufacturing company in the Republic of Turkey, Northern Electric Telekomünikasyon A.S. (owned 51% by Northern Electric and 49% by the Post Telegraph and Telephone Administration of the Republic of Turkey) which produces switching equipment, associated power supplies and switchboards, and telephone sets.

Northern Electric Company (Ireland) Limited, a wholly-owned subsidiary, was incorporated in 1973 to manufacture products in Galway, Republic of Ireland, associated with telephone station equipment and electronic private automatic branch exchanges, components and sub-assemblies. Production commenced in September 1973.

Subsidiaries of Northern Electric have recently opened offices in Amsterdam, London, Hong Kong and Singapore.

Northern Electric has entered into various licensing agreements with other companies to manufacture its products, the most recent being one with Thomson-CSF to manufacture SP-1 systems in France for sale there and in certain other countries.

**Distributing**

Nedco (1975) Ltd. (formerly Microsystems International Limited) acquired the assets (including subsidiaries) and assumed the liabilities of Nedco Ltd. effective June 1, 1975. Nedco Ltd. and its subsidiaries were engaged (and Nedco (1975) Ltd. and its subsidiaries ("Nedco") are now engaged) in the distribution of electrical, electronic and industrial products from sales offices and warehouses in 41 Canadian cities. Nedco distributes more than 15,000 industrial, electrical and electronic products from over 200 manufacturers, with Northern Electric supplying less than 23% of Nedco Ltd.'s purchases in 1974. The main product groups are wire and cable, wiring supplies, illumination products, utility products, motors, control systems, and, more recently, telecommunication and industrial electronic products.

Nedco's major markets are electrical contractors and the manufacturing industry, which together account for 65% of total sales. Power utilities, telephone operating companies, the mining industry and governments account for most of the remainder of the sales. No one customer accounted for more than 2% of 1974 sales of Nedco Ltd.

**Microsystems**

Microsystems International Limited ("Microsystems"), a subsidiary of Northern Electric, was engaged in the manufacture of microelectronic products, including semiconductors, integrated circuits and similar products for the computer and telecommunication industries. From its inception in 1969 through the termination of its manufacturing operations in 1975, Microsystems incurred losses aggregating $49,426,000. See Note A of Notes to Consolidated Statement of Earnings of Northern Electric and Subsidiary Companies.

Microsystems acquired the assets and assumed the liabilities of Nedco Ltd. effective June 1, 1975 and Microsystems' name has been changed to Nedco (1975) Ltd.

**Source and Availability of Raw Materials**

Northern Electric is a major user of copper and brass mill products and makes significant purchases of aluminum, steel, precious metals, plastics and other materials from many domestic and foreign sources. It has been able to obtain sufficient copper and other materials from domestic producers and world market sources to support production of cable and wire products despite labour disturbances and other market factors contributing to short supply from time to time in recent years. Northern Electric strives to develop and maintain alternate sources of supply of essential raw materials and from time to time maintains special inventories of such materials which may be in short supply.

**Research and Development**

Before 1958, most of the designs and much of the technology employed by Northern Electric came from Western Electric Company, Incorporated ("Western Electric"), a subsidiary of AT&T. In 1958 Northern Electric established a separate research and development organization to develop new products, thus beginning a process which over the intervening years has made Northern Electric largely self-sufficient in design and technology. Northern Electric has continuing rights to use all Western Electric's inventions on which patents were issued prior to June 30, 1974 and patents issued subsequent to that date on inventions made prior to June 30, 1974. Northern Electric has the right to use certain technical information of Western Electric and is presently negotiating for the rights to use patents on inventions made subsequent to June 30, 1974. Royalties paid by Northern Electric to Western Electric and other companies in 1974 represented less than 0.5% of Northern Electric's consolidated sales. Northern Electric's rights to existing patented inventions of Western Electric and of AT&T and to certain of Western Electric's technical information will not be affected by the termination of the Service Agreement between Bell Canada and AT&T. (See "Certain Contracts of Bell Canada".)

To consolidate research efforts of Northern Electric and those of Bell Canada, Bell-Northern Research Ltd. ("BNR") was incorporated and commenced operations in 1971. BNR (which is owned 51% by Bell Canada and 49% by Northern Electric) operates research and development laboratories and undertakes the major part of the research activities of Northern Electric and Bell Canada and its other subsidiaries. With a staff of over 1,700 employees, including over 750 engineers, scientists and technical personnel, BNR is the largest industrial research and development organization in Canada. A U.S. subsidiary was formed in 1975 and has commenced research and development activities in Palo Alto, California. BNR carries out research, design, development, long range planning and systems engineering in all fields of telecommunications. In 1973 and 1974 Northern Electric and its subsidiaries expended approximately $33,000,000 and $44,000,000, respectively, on research and development, including $21,000,000 and $28,000,000, respectively, attributable to BNR.

**Competition**

Competitors in the telecommunication equipment market are numerous and vary from very small, highly specialized manufacturers to large multinational companies. Major telecommunication equipment suppliers sell to Bell Canada and compete for the business of the Canadian and other North American and world telephone networks.

Northern Electric believes it is the second largest manufacturer of telecommunication equipment sold in North America. It sells to all segments of the Canadian telephone operating company market and believes that it has in excess of 70% of this market. Its major competitors include subsidiaries of GTE and International Telephone and Telegraph Corporation ("ITT") which manufacture and market telecommunication equipment in Canada.

In the United States, the largest manufacturer, Western Electric, sells almost exclusively to the U.S. Bell System and government agencies. Competitors for the independent telephone operating company market include GTE Automatic Electric Inc. (a subsidiary of GTE), North Electric Company (a subsidiary of United Telecommunications, Inc.), Superior Continental Corp. (a subsidiary of Continental Telephone Corporation), Stromberg-Carlson Corporation (a subsidiary of General Dynamics Inc.) and manufacturing affiliates of ITT.

In Europe the major manufacturers are The Plessey Company Limited and The General Electric Company Limited of the United Kingdom, Philips Industries, N.V. of Holland, L.M. Ericsson Telephone Company of

Sweden, Siemens A.G. of West Germany and other national and European-based international companies. Subsidiaries of ITT and GTE have established positions in the market, while Northern Electric, other North American manufacturers and Japanese manufacturers are intensifying their efforts to obtain a share of this and other developing markets in the world.

The electrical distribution industry in Canada consists of more than 120 companies of which 4 companies including Nedco have national distribution networks. Nedco estimates its share of this market to be in excess of 13%.

### Employee Relations

At June 30, 1975 over 70% of the approximately 23,000 employees of Northern Electric and its subsidiaries were represented by unions. Northern Electric's principal labour contracts were entered into in 1973, following a series of strikes, expire early in 1976 and include a cost of living allowance in all three years.

## DESCRIPTION OF PROPERTY OF NORTHERN ELECTRIC

At July 31, 1975 Northern Electric operated 33 plants and warehouses in 8 provinces of Canada, occupying 5,590,000 square feet of space, of which approximately 1,874,000 square feet were leased.

NTI operated assembly and manufacturing facilities at Port Huron, Michigan; Concord, New Hampshire; Butner, North Carolina; Mountain View, California; and West Palm Beach, Florida for total plant facilities of 345,000 square feet of which approximately 145,000 square feet were leased. In addition NTI maintains sales offices in New York, North Carolina, Florida, Texas, California, Illinois and Puerto Rico and distribution centres in Ohio and Georgia.

Nedco operated 48 warehouses and sales offices across Canada in 41 Canadian cities in all 10 provinces occupying approximately 880,000 square feet, of which 191,000 square feet were owned by Northern Electric or Nedco and the remainder leased.

Northern Electric's other subsidiaries had plants in Turkey, the Republic of Ireland and Malaysia occupying 81,000 square feet, of which about 50,000 square feet are owned and the balance leased.

## CERTAIN CONTRACTS OF NORTHERN ELECTRIC

### Supply Contract

Northern Electric has an agreement with Bell Canada under which Northern Electric agrees, to the extent reasonably required for Bell Canada's business, to manufacture materials or purchase materials manufactured by others, to sell such materials to Bell Canada, to maintain stocks at distributing points, to prepare equipment specifications and to perform installations of materials, and to repair or dispose of used materials returned by Bell Canada. Northern Electric's prices and terms are to be as low as those offered to its most favoured customers for like materials and services under comparable conditions in effect at the date of the order. At present, export sales are generally not considered to be made under conditions comparable to domestic sales. Sales of Northern Electric and its subsidiaries to Bell Canada and its telephone subsidiaries for the three years ended December 31, 1974 and the six months ended June 30, 1975 amounted to $320,214,000, $346,389,000, $522,697,000 and $315,171,000, respectively. For further information as to sales by Northern Electric to Bell Canada, see Note 1 of Notes to Financial Statements of Bell Canada and Subsidiary Companies.

### Patent Licensing Agreement

On November 28, 1973, Northern Electric, Bell Canada and BNR entered into an agreement whereby patents resulting from BNR's research and development activities are generally to be assigned to Northern Electric for exploitation on behalf of the three companies. Provisions are made for the division of royalties between Bell Canada and Northern Electric. Bell Canada and BNR however may use such patents in their own businesses without payment of royalty. The agreement also provides for the use by the three companies of technical information produced by any one of them and sets forth the conditions of such use.

## MANAGEMENT OF NORTHERN ELECTRIC

### Directors

The directors of Northern Electric are elected annually and hold office until the next Annual General Meeting or until their successors are elected or appointed. The directors, their ages, year first elected or appointed as director, addresses, other positions with Northern Electric presently held and principal occupations during the past five years are as follows:

| Director's Name, (Age), Year First Elected and Home Address | Principal Occupations |
|---|---|
| Ewart Orville Bridges (52) 1971<br>39 Old Mill Road, Toronto, Ont. | Group Vice-President of Northern Electric. |
| *Albert Jean de Grandpré, q.c. (54) 1970<br>156 Springgrove Crescent, Outremont, Que. | President of Bell Canada. |
| Georges de Lery Demers, q.c. (56) 1967<br>236 Marie Victorin, Town of St. Nicolas, Que. | Partner of Lesage, Demers, Lesage & Brochu, Barristers and Solicitors. |
| James Douglas Gibson, o.b.e. (66) 1972<br>406 Glenayr Road, Toronto, Ont. | Economic Consultant. |
| Robert St. Clair Hurlbut (51) 1972<br>18 Sandfield Road, Don Mills, Ont. | Chairman of the Board and President of General Foods, Limited, a food processing company. |
| *Herbert Hayman Lank (71) 1955<br>168 Edgehill Road, Westmount, Que. | Director, Du Pont of Canada Limited, an integrated chemical company. |
| *Walter Frederick Light (52) 1972<br>5 Normandy Drive, Town of Mount Royal, Que. | President and Chief Operating Officer of Northern Electric. |
| *John Cunningham Lobb (62) 1971<br>1115 Sherbrooke Street West, Montreal, Que. | Chairman of the Board and Chief Executive Officer of Northern Electric. |
| Vernon Oswald Marquez (67) 1963<br>2890 Ste. Angélique Road, St. Lazare, Que. | Consultant to Northern Electric. |
| Charles Gordon Millar (49) 1973<br>3311 Cedar Avenue, Westmount, Que. | Executive Vice-President of Northern Electric. |
| *John Angus Ogilvy, q.c. (71) 1963<br>1321 Sherbrooke Street West, Montreal, Que. | Senior Partner, Ogilvy, Cope, Porteous, Montgomery, Renault, Clarke & Kirkpatrick, Barristers and Solicitors. |
| Charles Perrault (53) 1969<br>11355 James Morrice Street, Montreal, Que. | President of Perconsult Limited, Consultants. |
| *Gérard Plourde (59) 1962<br>6065 de Vimy Avenue, Montreal, Que. | Chairman of the Board and Chief Executive Officer of U A P Inc., an automotive parts distributor. |
| *Robert Carlton Scrivener (60) 1967<br>1321 Sherbrooke Street West, Montreal, Que. | Chairman of the Board and Chief Executive Officer of Bell Canada. |
| James Carden Thackray (51) 1973<br>481 Roslyn Avenue, Westmount, Que. | Executive Vice-President of Bell Canada. |
| William Maurice Young (51) 1973<br>2376 South West Marine Drive, Vancouver, B.C. | Chairman of the Board and Chief Executive Officer of Finning Tractor & Equipment Company, Limited. |

*Member of the Executive Committee

All of the above-named directors of Northern Electric have held their present positions or other executive positions with the same or associated firms or organizations during the past five years, except as follows: Mr. G. de L. Demers was, prior to April 1974, President of Sterling Securities Corporation; Mr. W. F. Light was, prior to August 1974, Executive Vice-President of Bell Canada; Mr. J. C. Lobb was, prior to June 1971, President, John C. Lobb Associates, Management Consulting firm and was, prior to 1971, a partner of Donaldson, Lufkin & Jenrette, a United States investment banking firm, President and Chief Executive Officer of Crucible Steel Corporation and Executive Vice-President of ITT; and Mr. C. Perrault was, prior to April 1975, President, Conseil du Patronat du Québec, the Quebec Employers' Federation.

### Officers

The officers, their ages, addresses and offices presently held are as follows:

| Name, (Age) and Home Address | Offices Presently Held |
|---|---|
| Clive Victor Allen (40)<br>20756 Gay Cedars Drive, Baie d'Urfé, Que. | Vice-President, Secretary and General Counsel |
| Clarence Arthur Anderson (57)<br>591 Hillsite Avenue, Beaconsfield, Que. | Vice-President, Patents & Licenses |
| Walter Clark Benger (49)<br>642 Murray Hill, Westmount, Que. | Vice-President, Transmission |
| Ewart Orville Bridges (52)<br>39 Old Mill Road, Toronto, Ont. | Group Vice-President, Switching |

| Name, (Age) and Home Address | Offices Presently Held |
|---|---|
| John William Caffry (47)<br>17 Harrow Place, Beaconsfield, Que. | Vice-President & Controller |
| William Connell Cawthon (53)<br>1455 Sherbrooke Street West, Montreal, Que. | Vice-President, Manufacturing |
| Roy Thomas Cottier (54)<br>1745 Cedar Avenue, Montreal, Que. | Vice-President, Corporate Relations |
| John Derek Davies (47)<br>74 White Pine Drive, Beaconsfield, Que. | Vice-President, Marketing |
| Richard Francis Doyle (47)<br>Deer Run Road, Lincoln, Mass. | Senior Vice-President, United States and President of NTI |
| John William Edwards (45)<br>7 Sunset Avenue, Senneville, Que. | Vice-President, Business Systems |
| Richard Alphonse Fortier (51)<br>2005 Melba Street, Saint-Bruno de Montarville, Que. | Vice-President, Industrial Relations |
| Jean-Paul Gagnon (49)<br>33/35 rue Anna Jaquin, 92100 Boulogne sur Seine, France. | Vice-President, General Administration |
| William Leonard Glasspoole (52)<br>135 Ivanhoe Crescent, Pointe Claire, Que. | Vice-President, Accounting |
| Stuart Ward Henry (33)<br>100 De Gaspe, Nuns' Island, Que. | Treasurer |
| Walter Frederick Light (52)<br>5 Normandy Drive, Town of Mount Royal, Que. | President and Chief Operating Officer |
| John Cunningham Lobb (62)<br>1115 Sherbrooke Street West, Montreal, Que. | Chairman of the Board and Chief Executive Officer |
| Charles Gordon Millar (49)<br>3311 Cedar Avenue, Westmount, Que. | Executive Vice-President, Operations |
| Jacques E. Ouellet (43)<br>755 Montpelier Street, St. Laurent, Que. | Vice-President, Personnel & Industrial Relations |
| William John Pardy (53)<br>317 Pinetree Crescent, Beaconsfield, Que. | Group Vice-President, Cable, Transmission & Outside Plant |
| William Tyrie Simpson (55)<br>379 Berkeley Circle, Dorval, Que. | Vice-President, Cable |
| James George Stark (47)<br>1455 Sherbrooke Street West, Montreal, Que. | Senior Vice-President, Finance |
| William Allin Thompson (50)<br>455 Lakeshore Road, Beaconsfield, Que. | Senior Vice-President, Administration |
| Elliott Turcot (53)<br>1569 Truscott Drive, Mississauga, Ont. | Vice-President, Advanced Switching Systems |
| David George Vice (42)<br>175 Wychwood Park, London, Ont. | Vice-President & Product Line Manager — Apparatus & Cable |
| Harry Lloyd Webster (50)<br>27 Aleutian Road, Ottawa, Ont. | Vice-President & Product Line Manager — Switching & Transmission |
| Kenneth Harold Woodley (46)<br>30 Rockwood Drive, Dollard des Ormeaux, Que. | Group Vice-President, Subscriber Equipment |

All of the above-named officers of Northern Electric have been employed in their present positions or other senior positions with Northern Electric or one or more of its subsidiaries or associated companies during the past five years, except as follows: Mr. C. V. Allen was, prior to his appointment with Northern Electric on May 6, 1974, associated with Allied Chemical Canada, Ltd. as Vice-President & Secretary and prior to November 1972 as Secretary; Mr. J. W. Caffry was, prior to his appointment with Northern Electric on August 21, 1975, associated with The Trane Company as Vice-President, Finance and prior to September 1972 was associated with RCA Corporation as Staff Vice-President, Financial Planning; Mr. W. C. Cawthon was, prior to his appointment with Northern Electric on December 6, 1973, associated with Rockwell International Corp. as Vice-President & General Manager, Draper Division, and prior to May 1972 acted as an industrial consultant; Mr. R. T. Cottier was, prior to his appointment with Northern Electric on September 17, 1973, associated with W. R. Grace & Co. as Vice-President, New Enterprises Group and prior to April 1971 was associated with Molson Industries Ltd. as Director Corporate Relations; Mr. R. F. Doyle was, prior to his appointment with Northern Electric on November 1, 1972, associated with Allied Products Corporation as Senior Vice-President & Director; Mr. J. W. Edwards was, prior to his appointment with Northern Electric on January 20, 1975, associated with United Aircraft Corporation as Assistant Manager, Information Systems, Pratt & Whitney Aircraft Division and prior to June 1973 was Assistant to Commissioner, Data Processing, Bureau of Customs, Treasury Department, Washington, D.C.; Mr. R. A. Fortier was, prior to his appointment with Northern Electric on November 1, 1972, associated with the Pulp & Paper Industrial Relations Council as President; Mr. S. W. Henry was, prior to his appointment with Northern Electric on September 1, 1975, associated with Crown Zellerbach Corporation as

Assistant Treasurer and prior to July 1973 was a Vice-President with Bank of America, New York; Mr. W. F. Light was, prior to his appointment with Northern Electric on August 1, 1974, Executive Vice-President of Bell Canada, Mr. J. C. Lobb was, prior to his appointment with Northern Electric on June 1, 1971, President of John C. Lobb Associates, Management Consulting firm, and was, prior to 1971, a partner of Donaldson, Lufkin & Jenrette, a United States investment banking firm, President and Chief Executive Officer of Crucible Steel Corporation and Executive Vice-President of ITT; Mr. J. E. Ouellet was, prior to his appointment with Northern Electric on August 14, 1974, associated with Canadair Limited as Vice-President, Industrial Relations and Materiel, and prior to January 1971 with General Dynamics Corporation as a Corporate Labour Relations Representative; Mr. J. G. Stark was, prior to his appointment with Northern Electric on August 19, 1974, a General Partner of Lehman Brothers, a United States investment banking firm, and prior to March 1973 was associated with Consolidated Edison Company of New York, Inc. as Vice-President and Treasurer.

**Remuneration of Directors and Officers**

The following table shows aggregate direct remuneration paid in 1974 by Northern Electric and its subsidiaries for services rendered and estimated annual benefits upon retirement for the three highest paid officers and for each director whose remuneration during the time he served as such exceeded $40,000 and also remuneration for all officers and directors as a group.

| Name and Capacities in which Direct Remuneration was Received | Aggregate Direct Remuneration (A) | Estimated Annual Benefits upon Retirement |
|---|---|---|
| J. C. Lobb<br>Chairman of the Board and Chief Executive Officer and prior to August 1, 1974 President and Chief Executive Officer of Northern Electric. Chairman of the Board and prior to March 1, 1974 Chairman of the Board and President of NTI | $ 121,832 | (B) |
| W. F. Light<br>Since August 1, 1974 President and Chief Operating Officer of Northern Electric and prior thereto Director of Northern Electric and NTI | $ 58,979 | $55,000 |
| C. G. Millar<br>Executive Vice-President, Operations of Northern Electric | $ 80,000 | $44,600 |
| E. O. Bridges<br>Group Vice-President and prior to February 18, 1974 Executive Vice-President of Northern Electric | $ 88,333 | $34,600 |
| R. F. Doyle<br>Senior Vice-President, United States and prior to August 19, 1974 Executive Vice-President, Finance of Northern Electric. President and prior to March 1, 1974 Executive Vice-President, Finance of NTI | $ 80,727 | $21,400 |
| Officers and Directors as a group<br>(Consisting of 44 persons, including those named above) | $1,804,200 | |

(A) Excludes incentive remuneration plan awards, see "Incentive Remuneration Plans and Stock Options".

(B) Mr. J. C. Lobb has agreements with Northern Electric and NTI providing for a special pension and retirement plan due to his inability to participate in Northern Electric's pension plan because of his age at time of employment. As of August 21, 1975 Mr. J. C. Lobb was entitled upon his retirement to aggregate benefits of $87,600 per annum for life (with a guaranteed period of 10 years) and may from time to time in the future be awarded supplemental amounts at the discretion of the Boards of Directors of Northern Electric and NTI.

Mr. J. C. Lobb has employment contracts to serve as Chairman of the Board and Chief Executive Officer of Northern Electric and as Chairman of the Board of NTI in each case until May 31, 1978. These contracts are terminable in each case by either party on one month's notice; in the event of termination by Mr. J. C. Lobb, he is entitled to all accrued and unpaid salary; and, in the event of termination by the employing company, he is entitled to an amount equal to one-half of annual salary in addition to all accrued and unpaid salary.

Mr. J. C. Lobb also has an agreement to act as consultant to NTI either upon retirement in 1978 or termination of employment by mutual consent at any time after May 31, 1976 for a period not exceeding 7 years from such date of retirement or termination at an annual retainer of U.S. $30,000.

## INCENTIVE REMUNERATION PLANS AND STOCK OPTIONS

In 1972, Northern Electric established an incentive remuneration plan to grant awards to officers and employees who are considered to have made an outstanding contribution to the success of Northern Electric. Grants under this plan must be approved by the Board of Directors. For the years ended December 31, 1972 to December

31, 1974, awards aggregating $1,440,000 were approved for officers of Northern Electric including $692,000 for the year ended December 31, 1974. Of the aggregate awards, $620,200 was paid through July 31, 1975 including $240,500 for the year ended December 31, 1974. Awards have not yet been granted for any period subsequent to December 31, 1974. The balance (except for those amounts covered by separate agreements referred to below) together with an interest factor equal to the average prime bank rate as of the beginning and the end of any year (for 1974, 10.25%) will be paid in the future in accordance with the terms of the plan which provide for forfeiture (unless otherwise determined) in the event the recipient leaves the employment of Northern Electric for any reason other than death, retirement or transfer. For the years ended December 31, 1972 to December 31, 1974 awards were granted in the amount of $75,000 for Mr. W. F. Light (being for the year ended December 31, 1974), $153,000 for Mr. C. G. Millar (of which $80,000 was for the year ended December 31, 1974), $130,000 for Mr. E. O. Bridges (of which $60,000 was for the year ended December 31, 1974) and $87,500 for Mr. R. F. Doyle (of which $37,500 was for the year ended December 31, 1974). Of the aggregate awards, payments were made through July 31, 1975 as follows: to Mr. W. F. Light $30,000 for the year ended December 31, 1974, to Mr. C. G. Millar $10,800 for the year ended December 31, 1972 and to Mr. E. O. Bridges $18,000 for the year ended December 31, 1972. Messrs. Millar, Bridges and Doyle have agreements with Northern Electric which provide for (i) the extended deferral of certain award payments with interest at 6% per annum and (ii) forfeiture of the outstanding amounts in the event of non-approved involvement in Canada in a business similar or competitive with that of Northern Electric, breach of confidentiality, or failure to act as consultant when requested.

In 1973, NTI established an incentive remuneration plan similar to that of Northern Electric. For the year 1974 the Board of Directors of NTI approved an award of U.S. $37,500 to Mr. R. F. Doyle, President of that company, who is a senior officer of Northern Electric. This amount was paid in 1975.

Under a stock option plan authorized by NTI there are reserved 125,000 of its common shares (equal to 5% of the total presently outstanding) for issuance, at not less than the fair market value on the date the option is granted, to certain officers and key employees of NTI and its subsidiaries upon the exercise of options, all of which must be exercised in full within five years after their respective dates of grant. As of July 31, 1975 options to purchase 73,000 shares had been granted under the plan, 47,500 shares at U.S. $12.50 per share and expiring on various dates during 1978 (including 9,500 to Mr. J. C. Lobb and 4,500 to Mr. R. F. Doyle), and 25,500 shares at U.S. $20 per share and expiring on various dates during 1979 and 1980 (including 4,000 to Mr. R. F. Doyle expiring in 1979). Options for 7,500 shares at U.S. $12.50 per share have been terminated. There is no reasonably ascertainable market value for these shares and exercise prices were determined in relation to projected earnings. Options were outstanding at July 31, 1975 as follows:

| | |
|---|---|
| — to senior officers of Northern Electric | 18,000 shares |
| — to directors and senior officers of NTI not included above | 32,500 shares |
| — to other employees of NTI | 15,000 shares |

The Board of Directors of NTI has taken action to terminate the NTI stock option plan and all outstanding options will be withdrawn in the near future. Holders of such options, other than Mr. J. C. Lobb, will receive additional pension benefits in substitution for such options.

## PRINCIPAL HOLDER OF SECURITIES AND SELLING SHAREHOLDER

The following table sets forth the ownership of each person or company owning of record or, to the knowledge of Northern Electric, beneficially, directly or indirectly, more than 10% of the Common Shares of Northern Electric outstanding at September 30, 1975.

| Name and Address | Designation of class | Type of Ownership | Number and % of Shares owned | Number and % of Shares owned assuming exercise of 1,998,724 outstanding warrants and completion of the sale of 5,250,000 Common Shares |
|---|---|---|---|---|
| Bell Canada<br>1050 Beaver Hall Hill<br>Montreal, Que. | Common | Record and Beneficial | 23,561,224 Shares<br>89.0% | 16,312,500 Shares<br>61.6% |

As at July 31, 1975, directors and officers of Northern Electric, as a group, owned in the aggregate beneficially, directly or indirectly, less than 1% of any class of shares of Bell Canada or Northern Electric or their subsidiaries.

## DESCRIPTION OF CAPITAL STOCK OF NORTHERN ELECTRIC

The Common Shares of Northern Electric are without nominal or par value and the holders are entitled to receive pro rata such dividends as may, from time to time, be declared by the Board of Directors; are entitled to one vote per share; have no preemptive, redemption or conversion rights; and are entitled, upon liquidation, to receive pro rata such assets of Northern Electric as are distributable to holders of the Common Shares. Outstanding Common Shares are fully paid and non-assessable.

Under the terms of trust agreements relating to its debentures, Northern Electric has covenanted not to declare or pay any dividends (other than stock dividends) or purchase, redeem or reduce any of its shares if, after giving effect to such action, the sum of the amounts paid or distributed for such purposes after December 31, 1972 will exceed consolidated net earnings of Northern Electric and its subsidiaries earned after that date plus the net cash proceeds to Northern Electric from the sale of its shares after that date plus $25,000,000. At June 30, 1975, $151,087,000 was free from these restrictions.

## TRANSFER AGENTS AND REGISTRARS

Northern Electric maintains transfer offices for its Common Shares at Montreal and Toronto. Montreal Trust Company acts as transfer agent for the Common Shares of Northern Electric at Halifax, Winnipeg, Regina, Calgary and Vancouver and acts as registrar for the Common Shares at Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

The United States registrar and transfer agent for the Common Shares of Northern Electric is Manufacturers Hanover Trust Company, 40 Wall Street, New York, N.Y. 10015.

## LEGAL PROCEEDINGS

On August 31, 1971, an action was instituted in the Superior Court, District of Montreal, against Northern Electric by Radionica A.G., claiming $9,200,000 arising from Northern Electric's unaccepted tender for the installation of a microwave system in Libya. Radionica A.G. has claimed $1,350,000 in net lost commissions, $350,000 in loss of profits and $7,500,000 in damages to reputation and goodwill. On August 1, 1974, an action was instituted in the Superior Court, District of Montreal, against Northern Electric by Albatros Naviera S.A., claiming $8,960,000 arising from the unsuccessful attempt to secure a contract for the installation of telephone lines and equipment in Peru and the alleged improper termination of a Venezuelan representative agreement. Albatros Naviera S.A. has claimed $7,690,000 in lost commissions, $1,000,000 in damages for loss of commission or damage to its reputation and $270,000 as finder's fee and standby fee. Ogilvy, Cope, Porteous, Montgomery, Renault, Clarke & Kirkpatrick of Montreal, counsel to Northern Electric in these suits, is of the opinion that there are valid substantive defences to both actions.

On October 11, 1974, Neuberger & Berman, a member firm of the New York Stock Exchange, commenced a purported class action in the United States District Court for the Southern District of New York against Northern Electric and its Chairman of the Board and Chief Executive Officer, alleging, essentially, material misstatements and omissions in the soliciting materials and filings with the Securities and Exchange Commission in violation of the Securities Exchange Act of 1934 and regulations thereunder in connection with Northern Electric's purchase offer (subsequently withdrawn) for shares of common stock of Dictaphone Corporation. The action is purportedly brought on behalf of all persons who purchased shares of Dictaphone Corporation common stock between September 26 and October 3, 1974, the dates on which the purchase offer was announced and withdrawn, respectively, and seeks damages of "not less $3,000,000". Defendants, in answering the complaint, have denied all material allegations of wrongdoing. Pre-trial discovery is in progress. At this stage of this litigation and because of certain novel questions of law raised therein, Northern Electric's U.S. counsel are unable at this time to express an opinion as to Northern Electric's ultimate liability, if any, for the damages sought. However, in the opinion of such counsel, there are substantial questions as to the plaintiff's right to represent the purported class and as to whether this action may be maintained on behalf of such a class. If the plaintiff may not represent the class or the action may not be maintained on its behalf, the action will be limited to a claim for the plaintiff's own damages, which are alleged to have been less than $94,000.

## INDEX TO FINANCIAL STATEMENTS OF NORTHERN ELECTRIC AND SUBSIDIARY COMPANIES



## REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Board of Directors
Northern Electric Company, Limited

We have examined the consolidated balance sheet of Northern Electric Company, Limited and subsidiary companies at June 30, 1975, the consolidated statements of earnings, contributed surplus, retained earnings and changes in financial position for the five years ended December 31, 1974 and for the six months ended June 30, 1974 and 1975. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, contributed surplus, retained earnings and changes in financial position of Northern Electric Company, Limited and subsidiary companies present fairly the consolidated financial position of the companies at June 30, 1975, the results of their operations and the changes in their financial position for the five years ended December 31, 1974 and for the six months ended June 30, 1974 and 1975, all in accordance with generally accepted accounting principles applied on a consistent basis.

Montreal, Quebec
Canada
October 6, 1975

(Signed) Touche Ross & Co.
Chartered Accountants

## NORTHERN ELECTRIC COMPANY, LIMITED
## AND SUBSIDIARY COMPANIES
## CONSOLIDATED BALANCE SHEET
### (thousands of dollars)

### ASSETS

| | June 30, 1975 |
|---|---|
| **Current** | |
| Cash | $ 5,886 |
| Short term investments at cost (approximates market value) | 72,287 |
| Accounts receivable | |
| Affiliated companies | 66,082 |
| Trade (less provision for uncollectibles $3,905) | 98,090 |
| Inventories (Note 2) | 234,970 |
| Prepaid expense | 4,716 |
| Deferred income taxes | 16,531 |
| | 498,562 |
| **Investment in Affiliated Company at cost** | 11,640 |
| **Other Investments** | 2,204 |
| **Plant and Equipment** (Note 3) | 120,375 |
| **Deferred Charges and Goodwill** | 6,225 |
| Total Assets | $639,006 |

### LIABILITIES

| | |
|---|---|
| **Current** | |
| Due to banks (Note 4) | $ 31,625 |
| Notes payable (Note 4) | 7,788 |
| Accounts payable and accrued liabilities | |
| Affiliated companies | 4,412 |
| Employees' payroll | 9,710 |
| Vacation pay accrued | 16,421 |
| Interest accrued | 758 |
| Other | 94,590 |
| Taxes payable | 26,219 |
| Long term debt instalments due within one year (Note 5) | 3,207 |
| | 194,730 |
| **Long Term Debt** (Notes 5 and 15) | 102,928 |
| **Deferred Income Taxes** | 21,538 |
| **Minority Interest in Subsidiary Companies** | |
| Capital stock | 2,728 |
| Retained earnings | 258 |
| | 2,986 |
| | 322,182 |

### SHAREHOLDERS' EQUITY

| | |
|---|---|
| **Capital Stock** (Note 6) | 158,982 |
| **Retained Earnings** | 157,842 |
| | 316,824 |
| **Commitments** (Note 7) | |
| Total Liabilities and Shareholders' Equity | $639,006 |

**NORTHERN ELECTRIC COMPANY, LIMITED**

**AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

**(thousands of dollars)**

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| **Source of Funds** | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| Operations | | | | | | | |
| Earnings before extraordinary items | $ 5,025 | $ 12,611 | $ 20,295 | $ 32,030 | $ 53,753 | $ 28,833 | $ 39,266 |
| Items not requiring funds — | | | | | | | |
| Depreciation | 12,356 | 11,709 | 13,047 | 16,587 | 25,797 | 12,832 | 11,710 |
| Deferred income taxes | (139) | 1,223 | (395) | 457 | 2,732 | (2,517) | (2,152) |
| Minority interest in net (loss) profit of subsidiary companies | (2,761) | (2,511) | (1,649) | (3,983) | (3,029) | (423) | 292 |
| Other | 25 | 14 | 39 | 100 | 2,185 | 68 | 111 |
| Total from operations | 14,506 | 23,046 | 31,337 | 45,191 | 81,438 | 38,793 | 49,227 |
| Proceeds from long term debt | 40,263 | 2,192 | 1,540 | 1,689 | 40,648 | 651 | — |
| Proceeds from issuance of capital stock | — | — | — | 39,000 | 779* | — | 5,228* |
| Proceeds from sale of plant and equipment after reflecting gains and losses in net earnings | 91 | 6,478 | 3,036 | 285 | 7,531 | 4 | 471 |
| Capital contribution by minority shareholders in subsidiary companies | 10,689 | 208 | — | 906 | 8 | 8 | — |
| Contributed surplus | 7,357 | — | — | — | — | — | — |
| | 72,906 | 31,924 | 35,913 | 87,071 | 130,404 | 39,456 | 54,926 |
| **Application of Funds** | | | | | | | |
| Expenditures for plant and equipment | 20,924 | 21,883 | 11,617 | 26,802 | 33,728 | 18,005 | 12,570 |
| Extraordinary items | 958 | — | 197 | — | — | — | 2,723 |
| Property previously held for sale and leaseback transferred to plant and equipment | — | — | 7,922 | — | — | — | — |
| Commission and expenses on issue of capital stock | — | — | — | 1,796 | — | — | — |
| Reduction of long term debt | 3,950 | 4,018 | 5,108 | 5,627 | 5,682 | 2,523 | 1,619 |
| Dividends | 8,836 | 11,832 | 11,781 | 11,781 | 13,735 | 6,541 | 7,927 |
| Investment in affiliated companies | 50 | 4,999 | 500 | 938 | 2,473 | 1,739 | 2,680 |
| Other investments | — | 600 | 400 | 1,250 | 1,164 | 100 | 507 |
| Elimination of contributed surplus | — | — | — | — | 644 | — | 2,222 |
| Increase in deferred charges and goodwill | — | — | — | 3,856 | — | — | 2,927 |
| Other | — | — | — | (92) | 211 | 23 | 1,048 |
| | 34,718 | 43,332 | 37,525 | 51,958 | 57,637 | 28,931 | 34,223 |
| Increase (decrease) in working capital | 38,188 | (11,408) | (1,612) | 35,113 | 72,767 | 10,525 | 20,703 |
| Working capital at beginning of period | 150,081 | 188,269 | 176,861 | 175,249 | 210,362 | 210,362 | 283,129 |
| Working capital at end of period | $188,269 | $176,861 | $175,249 | $210,362 | $283,129 | $220,887 | $303,832 |
| **The increase (decrease) in working capital is accounted for by —** | | | | | | | |
| Increase (decrease) in current assets: | | | | | | | |
| Cash | $ 114 | $ 6,607 | $ (4,658) | $ 428 | $ 8,152 | $ 1,948 | $ (5,265) |
| Short term investments | 13,771 | 1,473 | 38,126 | 14,756 | (69,684) | (36,354) | 69,357 |
| Accounts receivable | 3,693 | 13,230 | (19,031) | 14,661 | 43,811 | 25,239 | 19,272 |
| Inventories | (2,934) | (22,267) | 384 | 64,750 | 77,677 | 66,214 | (20,002) |
| Property held for sale and leaseback | 9,038 | (756) | (8,282) | — | — | — | — |
| Deferred income taxes | 4,309 | (253) | 1,538 | 3,275 | 3,004 | (576) | 2,188 |
| Other | 121 | (169) | 464 | 190 | 3,518 | 3,020 | (731) |
| (Increase) decrease in current liabilities: | | | | | | | |
| Due to banks | 31,948 | (2,683) | (8,618) | (15,166) | 28,815 | (15,857) | (31,495) |
| Notes payable | — | — | — | — | — | — | (7,788) |
| Accounts payable and accrued liabilities | (14,221) | (9,191) | 1,757 | (44,004) | (10,826) | (28,600) | (9,076) |
| Taxes payable | (6,412) | 1,417 | (2,952) | (1,616) | (13,037) | (7,517) | 4,243 |
| Long term debt due within one year | (1,239) | 1,184 | (340) | (2,161) | 1,337 | 3,008 | — |
| | $ 38,188 | $(11,408) | $ (1,612) | $ 35,113 | $ 72,767 | $ 10,525 | $ 20,703 |

*Exchange for Common Shares and Share Purchase Warrants of Microsystems.

## NORTHERN ELECTRIC COMPANY, LIMITED
## AND SUBSIDIARY COMPANIES

### CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| **Balance at beginning of period** | $ — | $ 7,357 | $ 7,357 | $ 7,357 | $ 2,866 | $ 2,866 | $ 2,222 |
| Increase (decrease) arising on consolidation from the issue of shares by Microsystems | 7,357 | — | — | (4,491) | — | — | — |
| Decrease arising on consolidation as the result of the exchange of common shares and share purchase warrants of Microsystems for common shares of Northern Electric | — | — | — | — | (644) | — | (2,222) |
| **Balance at end of period** | $ 7,357 | $ 7,357 | $ 7,357 | $ 2,866 | $ 2,222 | $ 2,866 | $ — |

### CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| **Balance at beginning of period** | $ 66,428 | $ 61,659 | $ 62,438 | $ 70,755 | $ 89,208 | $ 89,208 | $129,226 |
| *Add:* | | | | | | | |
| Net earnings | 4,067 | 12,611 | 20,098 | 32,030 | 53,753 | 28,833 | 36,543 |
| | 70,495 | 74,270 | 82,536 | 102,785 | 142,961 | 118,041 | 165,769 |
| *Deduct:* | | | | | | | |
| Cash dividends | 8,836 | 11,781 | 11,781 | 11,781 | 13,735 | 6,541 | 7,927 |
| Special dividend | — | 51 | — | — | — | — | — |
| Commission and expenses on issue of capital stock | — | — | — | 1,796 | — | — | — |
| **Balance at end of period** | $ 61,659 | $ 62,438 | $ 70,755 | $ 89,208 | $129,226 | $111,500 | $157,842 |
| **Dividends per common share** | $0.375 | $0.502 | $0.50 | $0.50 | $0.525 | $0.25 | $0.30 |

## NORTHERN ELECTRIC COMPANY, LIMITED
## AND SUBSIDIARY COMPANIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*These notes should be read in conjunction with the Notes to Consolidated Statement of Earnings of Northern Electric and Subsidiary Companies.*

### 1. Accounting Policies

The following summary of major accounting policies is presented to assist in the interpretation of the financial statements and other data presented herein.

*Principles of Consolidation* — The consolidated financial statements include the accounts of Northern Electric Company, Limited ("Northern Electric") and all subsidiary companies. When stock ownership and control of subsidiary companies is acquired, the income of these companies is included in the consolidated financial statements only to the extent of the income earned since the date of acquisition of control. The subsidiary companies are:

| | Ownership |
|---|---|
| Microsystems International Limited (now Nedco (1975) Ltd.) | 100% |
| Nedco Ltd. (incorporated in 1972) | 100% |
| Nevron Industries Company Limited (incorporated in 1972) | 100% |
| Northern Electric Caribbean Limited, Jamaica | 100% |
| Northern Electric Company (Ireland) Limited (incorporated in 1973) | 100% |
| Northern Electric Telekomünikasyon A.S., Republic of Turkey | 51% |
| Northern Telecom, Inc., U.S.A. (incorporated in 1971) | 100% |
| Northern Electric (Europe) N.V., the Netherlands (incorporated in 1974) | 100% |
| Northern Electric (International) N.V., the Netherlands (incorporated in 1974) | 100% |

*Translation of Foreign Currencies* — The accounts of the foreign subsidiaries have been translated into Canadian dollars at exchange rates prevailing at the balance sheet date for working capital items, at exchange rates prevailing at the respective transaction dates for non-current assets and liabilities (and related depreciation and amortization) and at average exchange rates prevailing during the period for income and expenses.

*Depreciation* — Depreciation is calculated on the straight line method using rates based on the expected useful lives of the respective assets as follows:

Buildings — 2½-3⅓%; machinery — 10-16⅔%; tools — 15-33⅓%; and furniture and fixtures — 10%.

*Research and Development* — Research and development expenses are charged to earnings in the years in which they are incurred.

*Income Taxes* — Northern Electric and its subsidiary companies use the tax allocation basis of accounting for income taxes. Reductions in income taxes relating to losses carried forward in subsidiary companies are not taken up in the accounts until the date of their realization is determined.

*Maintenance and Repairs* — The cost of maintenance and repairs of plant and equipment is charged to earnings in the years incurred.

*Inventories* — Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

*Goodwill* — Goodwill represents the unamortized excess of the acquisition costs over the net assets of subsidiary companies. Goodwill is amortized over periods not exceeding forty years.

### 2. Inventories

Inventories consisted of the following at June 30, 1975:

| | |
|---|---|
| Raw Materials | $ 28,016,000 |
| Work-in-Process | 119,892,000 |
| Finished Goods | 87,062,000 |
| | $234,970,000 |

Inventories at December 31, 1971, 1972, 1973, 1974 and June 30, 1974 amounted to $112,161,000, $112,545,000, $177,295,000, $254,972,000 and $243,509,000 respectively.

### 3. Plant and Equipment

Plant and equipment consisted of the following at June 30, 1975:

| | |
|---|---|
| Cost | |
| Land | $ 7,480,000 |
| Buildings | 63,092,000 |
| Machinery and Equipment | 216,689,000 |
| | 287,261,000 |
| Less: Accumulated Depreciation | |
| Buildings | 24,512,000 |
| Machinery and Equipment | 142,374,000 |
| | 166,886,000 |
| | $120,375,000 |

### 4. Due to Banks and Notes Payable

Due to banks (payable on demand) and notes payable (payable within 45 days) consisted of the following:

| | Due to Banks (interest bearing debt) | Notes Payable |
|---|---|---|
| Amount outstanding at June 30, 1975 (Due to banks of $31,625,000, included $21,329,000 of disbursement cheques in transit) | $10,296,000 | $ 7,788,000 |
| Maximum amounts outstanding at any month-end during the six months ended June 30, 1975 | $10,296,000 | $ 7,788,000 |
| Average amounts outstanding during the six months ended June 30, 1975 | $ 4,323,000 | $ 538,000 |
| Weighted average annual interest rates during the six months ended June 30, 1975 | 7.50% | 7.12% |

### 5. Long Term Debt

| | | | Outstanding | |
|---|---|---|---|---|
| Sinking Fund Debentures | Authorized and Issued | Redeemed | Current Liability | Long Term Debt |
| 4¾% due November 1, 1976 | $20,000,000 | $15,042,000 | $ — | $ 4,958,000 |
| 5¾% 1962 Series due December 15, 1982 | 20,000,000 | 9,016,000 | — | 10,984,000 |
| 6½% Series C due April 15, 1986 | 15,000,000 | 4,484,000 | — | 10,516,000 |
| 9¾% Series D due April 30, 1990 | 40,000,000 | 7,203,000 | — | 32,797,000 |
| | $95,000,000 | $35,745,000 | — | 59,255,000 |
| Bank Loans (Note 15) | | | 88,000 | 40,063,000 |
| Other (Note 15) | | | 3,119,000 | 3,610,000 |
| | | | $3,207,000 | $102,928,000 |

Bank loans included the following:

a) $35,000,000 term loan due August 1, 1977 at bank prime rate of interest.

b) $ 4,800,000 term loan due 1976 to 1982 at bank prime rate of interest plus ½ of 1%.

Both loans may be repaid at any time without penalty.

At June 30, 1975, the amount of long term debt payable, including sinking fund requirements, in the years 1975 through 1980, was $3,207,000, $8,109,000, $40,194,000, $4,106,000, $3,765,000 and $3,718,000 respectively.

### 6. Capital Stock

Authorized — 39,000,000 common shares without nominal or par value for an aggregate value not exceeding $225,000,000.

Under supplementary letters patent dated October 24, 1973, the authorized share capital of Northern Electric was increased from 2,250,000 to 3,000,000 common shares without nominal or par value and from an aggregate value of $175,000,000 to an aggregate value not exceeding $225,000,000. The number of authorized shares was subdivided on a 13 to 1 basis to 39,000,000 shares. Earnings per share have been retroactively adjusted to reflect this subdivision.

Outstanding at June 30, 1975:

| | |
|---|---|
| 26,469,287 common shares | $158,982,000 |

On December 18, 1973 Northern Electric issued for cash 2,600,000 common shares for an aggregate value of $39,000,000.

On December 9, 1974 Northern Electric made an offer to exchange its common shares with the holders of common shares and share purchase warrants of Microsystems, on the basis of one share of Northern

Electric for seven shares or fifteen share purchase warrants of Microsystems. Under such offer, 47,056 common shares for an aggregate value of $779,000 were issued in 1974 and 259,731 common shares for an aggregate value of $5,228,000 were issued during the six months ended June 30, 1975.

### 7. Lease Commitments

Northern Electric and its subsidiary companies are party to certain non-cancellable leases for property and equipment used in the performance of its business. At June 30, 1975 the aggregate minimum annual rental commitments for all such leases, and the commitments for non-capitalized financing leases included therein, were approximately as follows:

| | (thousands of dollars) | |
|---|---|---|
| Year | Aggregate | Financing |
| 1975 | $ 5,348 | $1,766 |
| 1976 | 5,024 | 1,519 |
| 1977 | 4,205 | 1,217 |
| 1978 | 3,615 | 1,169 |
| 1979 | 3,648 | 1,355 |
| 1980 | 2,767 | 1,377 |
| 1981-85 | 10,022 | 7,281 |
| 1986-90 | 6,596 | 6,368 |
| 1991-95 | 1,874 | 1,707 |

### 8. Incentive Remuneration Plan

In 1972, Northern Electric established an incentive remuneration plan to grant awards to officers and other key employees who are considered to have made an outstanding contribution to the success of Northern Electric. Amounts charged to earnings for the years ended December 31, 1972, 1973, 1974 and the six months ended June 30, 1974 and 1975 were $936,000, $3,550,000, $3,600,000, $1,800,000 and $1,800,000 respectively.

### 9. Plan for Employees' Pensions

Northern Electric and certain subsidiary companies have non-contributory plans which provide for service pensions based on length of service and rates of pay. The last actuarial reviews as of December 31, 1973 indicated that all vested benefits were fully funded and that on a winding-up basis no unfunded liability existed in respect of past service pension costs.

The cost of the plans charged to earnings for the years ended December 31, 1972, 1973, 1974 and the six months ended June 30, 1974 and 1975 were $13,528,000, $15,566,000, $19,435,000, $8,608,000 and $9,818,000 respectively.

### 10. Supplementary Information — Consolidated Statement of Earnings

| | (thousands of dollars) | | | | |
|---|---|---|---|---|---|
| | Year ended December 31, | | | Six months ended June 30, | |
| | 1972 | 1973 | 1974 | 1974 | 1975 |
| a) Maintenance and repairs | $10,774 | $10,865 | $17,631 | $ 7,862 | $10,036 |
| b) Depreciation | $13,047 | $16,587 | $25,797 | $12,832 | $11,710 |
| c) Taxes other than income taxes | | | | | |
| Property and business | $ 4,467 | $ 4,340 | $ 4,641 | $ 2,229 | $ 2,826 |
| Payroll | 3,675 | 4,478 | 7,398 | 4,471 | 4,503 |
| Total | $ 8,142 | $ 8,818 | $12,039 | $ 6,700 | $ 7,329 |
| d) Rental expense | $ 4,276 | $ 5,234 | $ 6,185 | $ 3,969 | $ 3,828 |

### 11. Trust Agreement Restrictions

Under the terms of the Trust Agreement relating to the debentures of Northern Electric, there are certain restrictions with respect to the payment of dividends (other than stock dividends) and the purchase,

redemption or reduction of any of its shares. As at June 30, 1975, $151,087,000 of shareholders' equity was free from these restrictions.

### 12. Unused Bank Lines of Credit

At June 30, 1975, Northern Electric and certain subsidiary companies had unused bank lines of credit, generally available at the prime bank rate of interest, of approximately $60,000,000.

### 13. Litigation

Among legal actions pending against Northern Electric are the following:

One suit instituted in 1971 claims $9,200,000 in lost commissions, loss of profits and damages arising from Northern Electric's unaccepted tender for installation of a microwave system in Libya. A second suit instituted in 1974 claims $8,960,000 in lost commissions, damages and finder's and standby fees arising essentially from Northern Electric's unsuccessful attempt to secure a contract for the installation of telephone lines and equipment in Peru. Litigation counsel to Northern Electric in these suits is of the opinion that there are valid substantive defences.

A third suit instituted in 1974 as a purported class action alleges violation of the United States securities laws in Northern Electric's purchase offer for shares of Dictaphone Corporation, and seeks damages of "not less than $3,000,000". Northern Electric has denied all material allegations of wrongdoing. At this stage of the litigation, Northern Electric's litigation counsel is unable to express an opinion as to Northern Electric's ultimate liability, if any. If the action does not qualify as a class action, the action will be limited to a claim for the plaintiff's own damages, which are alleged to have been less than $94,000.

Based on the foregoing, no provision has been established for these actions.

### 14. Translation of Foreign Currencies

The aggregate amount of exchange adjustments included in the determination of net earnings amounted to less than 1% of such net earnings for each period presented.

### 15. Subsequent Events

Long term debt repaid in July 1975 (see Note 5) was as follows:

a) The bank term loan due August 1, 1977 amounting to $35,000,000 and $2,000,000 of the bank term loan due 1976 to 1982.

b) Other debt amounting to $6,729,000, including current liability of $3,119,000.

## BELL CANADA

Bell Canada was incorporated by Special Act of the Parliament of Canada in 1880 and has its head office and its principal offices at 1050 Beaver Hall Hill, Montreal, Quebec, Canada H3C 3G4; telephone number (514) 870-1511. The act of incorporation of Bell Canada provides that it may be legally designated as The Bell Telephone Company of Canada, La Compagnie de Téléphone Bell du Canada or Bell Canada. As used herein the term "Bell Canada" refers to the parent company only and the term "Company" means Bell Canada and its subsidiary companies.

Bell Canada provides voice, visual, data and other telecommunication services and facilities in the Provinces of Ontario and Quebec and in the Northwest Territories. Bell Canada's telephone subsidiaries provide telecommunication services in New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island and parts of Ontario and Quebec. Northern Electric Company, Limited ("Northern Electric"), a Bell Canada subsidiary, is the largest manufacturer of telecommunication equipment in Canada and, through a subsidiary, one of the largest distributors of electrical and industrial equipment in Canada.

The Company's consolidated revenues and net income for 1974 were derived approximately 53% and 72% respectively from telecommunication services provided by Bell Canada and 10% and 7% respectively from telecommunication and related services provided by its telephone subsidiaries. Substantially all of the remaining 37% and 21% respectively was from the manufacture and sale of telecommunication equipment and the distribution of electrical products by Northern Electric and its subsidiaries.

Bell Canada has the largest number of shareholders of any Canadian corporation with approximately 217,000 registered holders of Common Shares, of whom almost 98% are registered as resident in Canada and hold approximately 98% of the Common Shares outstanding. There are approximately 42,000 registered holders of Preferred Shares, of whom almost 99% are registered as resident in Canada and hold more than 99% of the Preferred Shares outstanding. In January 1975 American Telephone and Telegraph Company ("AT&T") disposed, principally to Canadian investors, of its entire shareholding in Bell Canada, which then amounted to 749,992 Common Shares or approximately 2% of the total number of Common Shares then outstanding.

## CAPITAL EXPENDITURES

The Company has been making and expects to continue to make large capital expenditures to meet the demands for telecommunication services and to improve such services. Total consolidated investment in telecommunication and other property increased from approximately $4,300,000,000 at December 31, 1969 to approximately $7,500,000,000 at June 30, 1975 after giving effect to additions as well as retirements, but before deducting the accumulated depreciation at either date. Consolidated capital expenditures have been approximately as follows:

| | | | |
|---|---|---|---|
| 1970 | $481,402,000 | 1973 | $693,461,000 |
| 1971 | $554,561,000 | 1974 | $982,992,000 |
| 1972 | $606,311,000 | 1975 (six months ended June 30) | $552,380,000 |

It is expected that consolidated capital expenditures for 1975 will be approximately $1,000,000,000, of which more than half is expected to be generated from internal sources. Increased demand for telephone services and a higher rate of inflation were the principal reasons for the higher levels of expenditures in 1974 and anticipated for 1975 and thereafter. For information as to the impact on capital expenditures of Bell Canada of recent regulatory decisions, see "Regulation" under "Business of Bell Canada and its Subsidiaries".

As a result of its construction program, it has been necessary for Bell Canada to obtain large amounts of new capital from external financing to supplement internally generated funds. It is expected that it will be necessary to obtain further large amounts of new capital, through debt or equity financing or both, to provide for future capital expenditures.

## DIVIDENDS AND PRICE RANGE OF SHARES OF BELL CANADA

Bell Canada has paid dividends to its shareholders every year since 1881. During the five years and six months ended June 30, 1975 it has paid dividends on its Common and Preferred Shares as follows*:

| | Year 1970 | 1971 | 1972 | 1973 | 1974 | Six months 1975 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Per Common Share | 2.50 | 2.62 | 2.65 | 2.80 | 3.05 | 1.64 |
| Total (thousands) | 90,205 | 96,021 | 97,456 | 103,333 | 113,086 | 62,429 |
| Per $3.20 Convertible Preferred Share | 2.32 | 3.20 | 3.20 | 3.20 | 3.20 | 1.60 |
| Total (thousands) | 4,640 | 6,400 | 6,400 | 6,400 | 6,274 | 2,243 |
| Per $3.34 Convertible Preferred Share | — | 1.06 | 3.34 | 3.34 | 3.34 | 1.67 |
| Total (thousands) | — | 2,120 | 6,680 | 6,680 | 6,678 | 2,845 |
| Per $4.23 Convertible Preferred Share | — | — | — | — | — | 2.25 |
| Total (thousands) | — | — | — | — | — | 4,500 |
| Per $2.25 Preferred Share | — | — | — | 0.46 | 2.25 | 1.12 |
| Total (thousands) | — | — | — | 782 | 3,773 | 1,835 |

*The amounts shown represent the dividends paid out during the periods. These amounts differ from those shown in Bell Canada's annual reports and in the Prospectus Summary wherein dividends are treated on an accrual basis.

On August 27, 1975, the Board of Directors of Bell Canada declared a third quarter dividend of $0.86 per share payable on October 15, 1975 to holders of Common Shares of record on September 15, 1975.

The Common Shares of Bell Canada are listed on the Montreal, Toronto and Vancouver Stock Exchanges in Canada and on the stock exchanges in Amsterdam, Brussels, Düsseldorf, Frankfurt am Main, London, Paris and Zürich. The following table sets forth the high and low closing sale prices on the Montreal and Toronto Stock Exchanges of the Common Shares of Bell Canada for the periods indicated:

| | Montreal High | Montreal Low | Toronto High | Toronto Low |
|---|---|---|---|---|
| Year | | | | |
| 1970 | $47¾ | $38½ | $47¾ | $38¼ |
| 1971 | 50 | 44 | 50 | 43¼ |
| 1972 | 47½ | 41¾ | 47⅝ | 41⅝ |
| 1973 | | | | |
| First Quarter | 45⅜ | 43 | 45⅜ | 43 |
| Second Quarter | 45 | 42 | 45 | 42 |
| Third Quarter | 42⅛ | 39¾ | 42¼ | 39¾ |
| Fourth Quarter | 42 | 38½ | 42 | 38½ |
| 1974 | | | | |
| First Quarter | 44¾ | 39½ | 44⅝ | 39⅜ |
| Second Quarter | 44 | 40⅛ | 44⅛ | 40⅛ |
| Third Quarter | 44¼ | 40¼ | 44⅛ | 40¼ |
| Fourth Quarter | 45 | 40⅝ | 45 | 40⅝ |
| 1975 | | | | |
| First Quarter | 48⅜ | 43½ | 48⅜ | 43½ |
| Second Quarter | 47¼ | 44¼ | 47⅜ | 44¼ |
| Third Quarter | 45 | 40¾ | 45 | 40¾ |
| October (through October 6) | 41¼ | 40¾ | 41⅜ | 40¾ |

On October 6, 1975, the closing sale price on The Toronto Stock Exchange was $41 (equivalent to U.S. $39.98 based on the noon spot rate as reported by the Bank of Canada).

## CONSOLIDATED CAPITALIZATION OF BELL CANADA AND SUBSIDIARY COMPANIES

The following table sets forth the capitalization of the Company at June 30, 1975, July 31, 1975 and at July 31, 1975, as adjusted to give effect to (a) the sale of 5,250,000 Units consisting of 5,250,000 Common Shares of Northern Electric and Warrants to purchase 2,625,000 Common Shares of Bell Canada at $46 per share (the "Warrants") and (b) the exercise of the Warrants at the exercise price:

| | Authorized | Outstanding | | |
|---|---|---|---|---|
| | | June 30, 1975 | July 31, 1975 | July 31, 1975, after giving effect to the sale of the Units and the exercise of the Warrants |
| | | | (dollars in thousands) | |
| **EQUITY:** | | | | |
| **Bell Canada:** | | | | |
| Capital Stock | (1) | | | |
| Common, par value $25 | | $ 982,549(2) (39,301,962 shs)(3) | $ 987,829(2) (39,513,143 shs)(3) | $ 1,053,454(2) (42,138,143 shs)(3) |
| Cumulative Redeemable Voting Preferred | | | | |
| $3.20 Convertible, par value $47 | | $ 35,377 ( 752,692 shs) | $ 33,724 ( 717,539 shs) | $ 33,724 ( 717,539 shs) |
| $3.34 Convertible, Class B, Series B, par value $52 | | $ 56,593 ( 1,088,333 shs) | $ 54,929 ( 1,056,331 shs) | $ 54,929 ( 1,056,331 shs) |
| $4.23 Convertible, Class C, Series D, par value $47 | | $ 94,000 ( 2,000,000 shs) | $ 93,986 ( 1,999,700 shs) | $ 93,986 ( 1,999,700 shs) |
| $2.28 Convertible, Class C, Series E, par value $25 | | $ 125,000 ( 5,000,000 shs) | $ 125,000 ( 5,000,000 shs) | $ 125,000 ( 5,000,000 shs) |
| $2.25 Class B, Series C, par value $30 | | $ 48,756 ( 1,625,200 shs) | $ 48,681 ( 1,622,700 shs) | $ 48,681 ( 1,622,700 shs) |
| | | $ 1,342,275 | $ 1,344,149 | $ 1,409,774 |
| Premium on Capital Stock | | 431,916 | 435,052 | 490,177 |
| Contributed Surplus | | 15,292 | 15,292(7) | 15,292(7) |
| Retained Earnings | | 572,147 | 572,147(7) | 627,820(8) |
| **Applicable to Shares of Bell Canada** | | 2,361,630 | 2,366,640 | 2,543,063 |
| Minority Interest in Subsidiary Companies | | | | |
| Preferred shares | | 85,109 | 85,109(7) | 85,109(7) |
| Common shares | | 115,291 | 115,291(7) | 177,831(9) |
| | | 200,400 | 200,400 | 262,940 |
| **Total Equity** | | 2,562,030 | 2,567,040 | 2,806,003 |
| **DEBT:** (4) (5) | | | | |
| Long Term Debt | | | | |
| Bell Canada | | 2,160,926 | 2,160,926 | 2,160,926 |
| Subsidiary Companies | | 402,070 | 380,138 | 380,138 |
| Notes Payable | | | | |
| Bell Canada | | 17,448 | 15,932 | 15,932 |
| Subsidiary Companies | | 46,997 | 64,371 | 64,371 |
| **Total Debt** | | 2,627,441 | 2,621,367 | 2,621,367 |
| **Commitments** (6) | | | | |
| **Total Capitalization** | | $ 5,189,471 | $ 5,188,407 | $ 5,427,370 |

**Notes:**

1. Bell Canada's authorized capital is as follows:

   By Charter — $1,750,000,000 divided into Common Shares of the par value of $25 each, and into Preferred Shares.

   By Shareholders — $1,750,000,000 divided into Common Shares of the par value of $25 each, and: (a) not more than 4,000,000 of a class of Preferred Shares to a maximum aggregate amount of $100,000,000; (b) not more than 9,000,000 of another class of Preferred Shares to a maximum aggregate amount of $225,000,000; and (c) not more than 12,000,000 of another class of Preferred Shares to a maximum aggregate amount of $300,000,000.

2. Under the Employees' Savings Plan (1966) referred to under "Employees' Savings Plan and Options" as at June 30, 1975 deposits to an amount of $5,291,000 had been received from employees of Bell Canada and of certain subsidiaries against the purchase of Common Shares.

3. Not including Common Shares reserved for issuance upon conversion of the outstanding Convertible Preferred Shares or for issuance under the Employees' Savings Plan (1966) of Bell Canada.

4. All bonds issued by Bell Canada rank pari passu with one another.

   All bonds or debentures of each series issued by subsidiary companies rank, as to all other bonds or debentures issued by that company, pari passu with one another except as to sinking fund provisions applicable to any particular series.

5. For details of debt, reference is made to Notes 5 and 6 of the Notes to Financial Statements of Bell Canada and Subsidiary Companies.

6. For details of commitments, reference is made to Lease Commitments in Note 7 of the Notes to Financial Statements of Bell Canada and Subsidiary Companies.

7. At June 30, 1975.

8. At June 30, 1975, after giving effect to the estimated gain, net of related tax, on the sale of 5,250,000 Common Shares of Northern Electric.

9. At June 30, 1975, after giving effect to the sale of 5,250,000 Common Shares of Northern Electric.

## CONSOLIDATED INCOME STATEMENT OF BELL CANADA AND SUBSIDIARY COMPANIES (Note A)

The following consolidated income statement of Bell Canada and its subsidiary companies for the five years ended December 31, 1974, and for the six months ended June 30, 1974 and 1975, has been examined by Touche Ross & Co., independent chartered accountants, whose report is included elsewhere herein. The results for the six months ended June 30, 1975 are not necessarily indicative of the results that will be realized for the full year. This statement should be read in conjunction with the other financial statements and related notes included elsewhere herein.

(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| Operating revenues | | | | | | | |
| Local service | $ 571,569 | $ 632,746 | $ 700,893 | $ 776,678 | $ 863,459 | $ 415,631 | $ 475,892 |
| Long distance service | 441,694 | 472,528 | 541,758 | 643,421 | 749,972 | 361,351 | 416,083 |
| Miscellaneous — net | 45,248 | 51,433 | 58,407 | 67,709 | 79,949 | 39,716 | 44,163 |
| **Total Operating Revenues** | **1,058,511** | **1,156,707** | **1,301,058** | **1,487,808** | **1,693,380** | **816,698** | **936,138** |
| Operating expenses | 702,927 | 781,392 | 884,274 | 1,021,601 | 1,191,810 | 570,589 | 691,549 |
| **Net Operating Revenues** | **355,584** | **375,315** | **416,784** | **466,207** | **501,570** | **246,109** | **244,589** |
| Sales revenues — manufacturing and distributing (Note 1) | 563,611 | 577,401 | 535,025 | 613,772 | 972,226 | 460,840 | 546,887 |
| *Less:* Cost of sales | 469,827 | 466,728 | 406,137 | 452,996 | 720,765 | 339,352 | 398,376 |
| Selling, general and administrative expenses | 51,691 | 52,017 | 55,039 | 66,622 | 96,682 | 43,203 | 50,716 |
| Other expenses | 30,996 | 29,677 | 28,039 | 32,656 | 47,617 | 19,649 | 23,602 |
| **Net Sales Revenues** | **11,097** | **28,979** | **45,810** | **61,498** | **107,162** | **58,636** | **74,193** |
| **Total Net Revenues** | **366,681** | **404,294** | **462,594** | **527,705** | **608,732** | **304,745** | **318,782** |
| Other income | | | | | | | |
| Interest charged to construction | 8,193 | 10,385 | 10,756 | 11,268 | 17,178 | 7,954 | 10,245 |
| Miscellaneous | 3,066 | 1,377 | (589) | 10,424 | 8,674 | 6,442 | 5,160 |
| **Total Other Income** | **11,259** | **11,762** | **10,167** | **21,692** | **25,852** | **14,396** | **15,405** |
| **Income before Underlisted Items** | **377,940** | **416,056** | **472,761** | **549,397** | **634,584** | **319,141** | **334,187** |
| Interest charges | | | | | | | |
| Interest on long term debt | 87,944 | 102,987 | 115,099 | 131,319 | 146,573 | 68,867 | 91,258 |
| Other interest | 5,847 | 2,362 | 2,773 | 5,483 | 12,787 | 5,449 | 4,082 |
| **Total Interest Charges** | **93,791** | **105,349** | **117,872** | **136,802** | **159,360** | **74,316** | **95,340** |
| **Income before Income Taxes, Minority Interest and Extraordinary Items** | **284,149** | **310,707** | **354,889** | **412,595** | **475,224** | **244,825** | **238,847** |
| Income taxes (Note B) | 148,028 | 154,627 | 171,183 | 206,540 | 239,372 | 119,959 | 111,705 |
| **Income before Minority Interest and Extraordinary Items** | **136,121** | **156,080** | **183,706** | **206,055** | **235,852** | **124,866** | **127,142** |
| Minority interest | 3,319 | 4,850 | 7,312 | 6,080 | 11,416 | 7,369 | 10,248 |
| **Income before Extraordinary Items** | **132,802** | **151,230** | **176,394** | **199,975** | **224,436** | **117,497** | **116,894** |
| Extraordinary items (Notes A and C) | — | — | (908) | 5,396 | — | — | (2,429) |
| **Net Income** | **132,802** | **151,230** | **175,486** | **205,371** | **224,436** | **117,497** | **114,465** |
| Dividends on preferred shares | 5,706 | 9,350 | 13,079 | 14,020 | 17,594 | 8,426 | 10,406 |
| **Net Income Applicable to Common Shares** | **$ 127,096** | **$ 141,880** | **$ 162,407** | **$ 191,351** | **$ 206,842** | **$ 109,071** | **$ 104,059** |
| **Earnings per Common Share*** | | | | | | | |
| — before extraordinary items | $3.50 | $3.87 | $4.44 | $5.04 | $5.57 | $2.95 | $2.78 |
| — after extraordinary items | $3.50 | $3.87 | $4.41 | $5.18 | $5.57 | $2.95 | $2.71 |
| Assuming full conversion of convertible preferred shares | | | | | | | |
| — before extraordinary items | $3.49 | $3.82 | $4.32 | $4.86 | $5.34 | $2.82 | $2.66 |
| — after extraordinary items | $3.49 | $3.82 | $4.30 | $4.99 | $5.34 | $2.82 | $2.60 |
| *Based on average common shares outstanding (thousands) | 36,262 | 36,680 | 36,808 | 36,931 | 37,128 | 37,005 | 38,359 |
| **Dividends Declared per Common Share** | **$2.50** | **$2.65** | **$2.65** | **$2.85** | **$3.12** | **$1.56** | **$1.72** |

Note references are to Notes to Consolidated Income Statement of Bell Canada and Subsidiary Companies and to Notes to Financial Statements of Bell Canada and Subsidiary Companies.

## NOTES TO CONSOLIDATED INCOME STATEMENT OF BELL CANADA AND SUBSIDIARY COMPANIES

*These notes should be read in conjunction with the Notes to Financial Statements of Bell Canada and Subsidiary Companies.*

### A. Disposal of a Segment of a Business

The extraordinary item of $2,429,000 for the six months ended June 30, 1975 represents a provision for estimated costs of the winding-down of the semiconductor business of Microsystems International Limited. This presentation is in accordance with Canadian reporting practices.

Under U.S. practices, the disposal of a segment of a business requires different reporting; however, Net Income and Earnings per Common Share are identical under both Canadian and U.S. reporting practices. The classification of this item as a "disposal of a segment of a business" under U.S. reporting practices would have resulted in the following revised figures in the Consolidated Income Statement:

(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| Sales revenues — manufacturing and distributing, as reported | $563,611 | $577,401 | $535,025 | $613,772 | $972,226 | $460,840 | $546,887 |
| Less — Sales of discontinued operations | 228 | 1,542 | 7,843 | 15,951 | 23,712 | 14,012 | 4,850 |
| **Sales of Continuing Operations** | **$563,383** | **$575,859** | **$527,182** | **$597,821** | **$948,514** | **$446,828** | **$542,037** |
| **Net Income from Continuing Operations** | **138,051** | **155,098** | **178,019** | **211,387** | **232,001** | **119,018** | **118,415** |
| Discontinued Operations (net of minority interest) — | | | | | | | |
| Loss from operations of discontinued business | 5,249 | 3,868 | 2,533 | 6,016 | 7,565 | 1,521 | 1,521* |
| Loss on winding-down of discontinued business (net of income taxes of $2,100) | — | — | — | — | — | — | 2,429 |
| | 5,249 | 3,868 | 2,533 | 6,016 | 7,565 | 1,521 | 3,950 |
| **Net Income** | **$132,802** | **$151,230** | **$175,486** | **$205,371** | **$224,436** | **$117,497** | **$114,465** |
| **Earnings per Common Share** (after extraordinary items and assuming full conversion of convertible preferred shares) | | | | | | | |
| — From Continuing Operations | $ 3.63 | $ 3.92 | $ 4.36 | $ 5.14 | $ 5.52 | $ 2.86 | $ 2.69 |
| — From Discontinued Operations (Losses) | $(0.14) | $(0.10) | $(0.06) | $(0.15) | $(0.18) | $(0.04) | $(0.09) |
| — Net Income | $ 3.49 | $ 3.82 | $ 4.30 | $ 4.99 | $ 5.34 | $ 2.82 | $ 2.60 |

*Net of income taxes of $1,131. See Note 1 — *Income Taxes*

### B. Income Taxes

The Company's effective income tax rate as determined from the income statement (aggregate income taxes divided by the sum of aggregate income taxes and net income) was not materially different from the statutory (Canadian Federal and Provincial) income tax rate for any of the periods presented except the six months ended June 30, 1975 detailed below:

| | Six months ended June 30, 1975 |
|---|---|
| Statutory income tax rate | 51.5% |
| (i) Interest charged to construction, net of applicable depreciation adjustment | (1.7) |
| (ii) Reduction of Canadian Federal taxes applicable to manufacturing profits | (2.6) |
| (iii) Other miscellaneous differences between the calculations of taxable income and book income before taxes and outright reductions of taxes for the period resulting from investment tax credits and grants | (0.4) |
| Effective income tax rate | 46.8% |

Details of the Company's income taxes are as follows:

(thousands of dollars)

| | Year ended December 31, | | | Six months ended June 30, | |
|---|---|---|---|---|---|
| | 1972 | 1973 | 1974 | 1974 | 1975 |
| Current | $ 86,758 | $116,693 | $142,927 | $ 76,495 | $ 58,429 |
| Deferred | 84,425 | 89,847 | 96,445 | 43,464 | 53,276 |
| Total income taxes | $171,183 | $206,540 | $239,372 | $119,959 | $111,705 |

Adjustments to deferred income taxes have been made as a result of changes in methods of accounting for certain expenditures for income tax purposes.

## C. Extraordinary Items

In 1972 loss of $908,000 ($.03 per common share) on foreign exchange on repayment at maturity in 1972 of long term debt payable in United States funds.

In 1973 interest of $5,396,000 ($.14 per common share), net of income taxes of $5,618,000, on income tax refunds resulting from re-assessments in 1973 of income taxes for the years 1964 to 1969.

In 1975 loss of $2,429,000 ($.07 per common share) represents provision, after deducting income taxes and minority interest totalling $2,571,000 for estimated costs of winding-down of the semiconductor business of Microsystems International Limited. (See Note A)

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED INCOME STATEMENT OF BELL CANADA AND SUBSIDIARY COMPANIES

**Total Operating Revenues**

During the periods 1973, 1974 and the six months ended June 30, 1975, total operating revenues rose 14.4%, 13.8% and 14.6%, respectively, reflecting increased demand for local and long distance telecommunication services and secondly, rate awards. Bell Canada received rate awards in June 1972, July 1973 and September 1974. The number of long distance messages increased from 404,000,000 in 1972 to 457,000,000 in 1973 and to 522,000,000 in 1974, increases of 13% and 14% respectively. For the six months ended June 30, 1975, the increase in long distance messages was 10% over the corresponding period of 1974.

**Operating Expenses**

Heightened demand for telecommunication services necessitated increased investment in plant in service (percentage increases were 8.9% in 1973, 12.6% in 1974 and 6.6% at June 30, 1975 as compared to December 31, 1974), resulting in both increased depreciation (increases of 13.1% in 1973, 12.9% in 1974 and 13.8% for the six months ended June 30, 1975 over the same period in 1974) and maintenance expense (increases of 10.2% in 1973, 19.4% in 1974 and 21.5% for the six months ended June 30, 1975 over the same period in 1974). Also contributing to increased depreciation expense in the periods under discussion were adjusted depreciation rates due to modified service lives of certain plant. Higher wages and employee benefits following the effects of inflation-related settlements and employee growth also contributed to the increased maintenance expense and resulted in increases in other categories of operating expenses.

**Net Sales Revenues — Manufacturing and Distributing**

Sales revenues increased 14.7% in 1973, 58.4% in 1974 and 18.7% for the six months ended June 30, 1975 over the same period in 1974 principally as a result of higher sales volume of established company manufactured products and successful introduction of several new products, together with various price increases. Penetration into new markets, particularly in the United States, together with an increased share of the higher level of expenditures by certain major customers, especially in 1974, also accounted for a significant increase.

Related cost of sales increased by 11.5% in 1973, 59.1% in 1974 and 17.4% for the six months ended June 30, 1975 over the same period in 1974 in respect of both materials and labour but remained virtually unchanged in relation to sales. Unit costs of materials and labour escalated as a result of inflation but offsets resulted from the phase-out of obsolete products and inefficient facilities together with improved control of operations through decentralization.

**Other Income**

The increases in interest charged to construction are due to increases in plant under construction.

**Total Interest Charges**

Interest expense on additional debt incurred at higher interest rates to support expanded telecommunication construction programs was the main contributor to increased interest charges for the periods under discussion. Percentage increases were 16.1% in 1973, 16.5% in 1974 and 28.3% for the six months ended June 30, 1975 over the same period in 1974.

**Income Taxes**

In 1973 and 1974 income taxes rose primarily as a result of higher earnings.

**Minority Interest**

In the last quarter of 1973 Northern Electric issued Common Shares to the public. This share issue, coupled with increased consolidated earnings by Northern Electric, gave rise to the increase in the minority interest in 1974 and the first half of 1975.

**Supplementary Income Statement Information**

Maintenance and repairs and depreciation increased, as discussed above, as a result of increased plant. Research and development expense was higher principally as a result of inflation-related compensation increases during the period 1973 to June 30, 1975, together with increased product development activity which accelerated in 1974. Percentage increases in research and development expenses were 16.1% in 1973, 29.1% in 1974 and 16.3% for the six months ended June 30, 1975 over the same period in 1974.

## BUSINESS OF BELL CANADA AND ITS SUBSIDIARIES

The Company is the largest Canadian supplier of telecommunication services and equipment. The Company provides voice, visual, data, radio and television transmission, public exchange and private line teletypewriter and other telecommunication services in the Provinces of Ontario, Quebec, New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island and the Northwest Territories.

Northern Electric (a subsidiary of Bell Canada) and its subsidiaries manufacture a broad line of telecommunication equipment and distribute a wide range of electrical, industrial and electronic products.

### Telecommunication and Related Services

The Company operates about 8.7 million telephones in Canada, representing about 70% of the estimated 12.7 million telephones in Canada. Approximately 65% of the telephones in Canada are in Ontario and Quebec and the Company operates approximately 95% of all telephones in these provinces. (For certain statistical information as to the population and economic development of Ontario and Quebec see "Principal Service Area".) Bell Canada's telephone subsidiaries provide substantially all the telephones in the areas they serve. Almost all of the Company's telephones are dial-operated and over 80% of them are equipped for Direct Distance Dialing.

The following table sets forth information concerning the Company's telecommunication services:

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| Telephones in Service* (thousands) | | | | | | | |
| Business | 1,999 | 2,096 | 2,226 | 2,378 | 2,545 | 2,478 | 2,624 |
| Residence | 4,781 | 5,022 | 5,403 | 5,689 | 6,021 | 5,829 | 6,107 |
| Total | 6,780 | 7,118 | 7,629 | 8,067 | 8,566 | 8,307 | 8,731 |
| Long Distance Messages (millions) | 326 | 350 | 404 | 457 | 522 | 250 | 275 |

* At end of period.

Implementation of integrated planning with other telephone companies in Canada and the United States enables the Company to provide its customers with telecommunication services throughout Canada, the United States and other parts of the world. Bell Canada and its major telephone subsidiaries are members of the Trans-Canada Telephone System ("TCTS"), a working association of nine major Canadian telephone companies, which operates a coast-to-coast microwave radio relay network of more than 37,500 miles, of which over 17,000 miles are located within the Company's service area.

In addition to basic residential and business telephone services, other telecommunication services are provided by the Company's networks. For instance, customers can be supplied with private branch exchange ("PBX") services, paging services, mobile telephones, conference services and automatic answering equipment. The Company also provides specialized telecommunication networks serving pipeline companies and electrical utilities, services and facilities for private line telephone and signal channel use and a microwave radio relay system for the transmission of radio and television.

Electronic switching systems are being installed to replace or supplant existing electro-mechanical systems. 41 electronic switching systems are now in operation in nine cities in Bell Canada's service area, including Montreal, Toronto and Ottawa. Approximately 8% of Bell Canada's telephones in service are connected to electronic switching systems.

In conjunction with TCTS, Bell Canada operates data transmission systems for teletypewriters and for computer installations. The most important of these systems is "The Dataroute" the world's first nationwide digital data transmission facility available on a commercial basis, which was introduced in 1973. In October 1974 the Computer Communications Group of the TCTS announced plans for a new nationwide network for data communications, called the "Datapac" network, developed by Bell-Northern Research Ltd. ("BNR") (see "Research and Development" below). This will be a universally available data network based on the principles of digital transmission and "packet switching" (by which messages are broken down into individual

packets, each with their own address code, and shunted through the switching network to arrive at their proper destination). "Datapac 1000", an inquiry/response service for low-volume users, is available now using interim technology. The full "Datapac" service is scheduled to be in operation by mid-1976.

*Principal Service Area**

Ontario and Quebec are the two largest and most populous Canadian provinces. Their combined population of 14,228,000 represented approximately 63% of the total Canadian population at December 31, 1974. With estimated gross provincial products totalling $91.1 billion in 1974, economic activity in Ontario and Quebec represented approximately 65% of the Canadian gross national product and 78% of total wholesale value of manufacturing industry factory shipments for all of Canada. The following table sets forth certain statistical information as to the combined population and economic development of Ontario and Quebec in recent years:

| | Population (in thousands) | Gross Provincial Products (in billions) | Dwelling Unit Starts |
|---|---|---|---|
| 1970 | 13,564 | $56.4 | 123,793 |
| 1971 | 13,731 | 60.9 | 141,762 |
| 1972 | 13,884 | 67.9 | 158,679 |
| 1973 | 14,020 | 77.5 | 170,086 |
| 1974 | 14,228 | 91.1 | 137,145 |

* Source: Statistics Canada; Department of Industry and Commerce of Quebec; Ministry of Treasury, Economics and Intergovernmental Affairs (Ontario).

*Telephone Subsidiaries*

Most of the telecommunication services in New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island and in certain parts of Ontario and Quebec not served directly by Bell Canada are provided by Bell Canada's telephone subsidiaries, which are:

| Name | % Ownership of Common Shares* | Telephones in Service* | Service Area |
|---|---|---|---|
| The New Brunswick Telephone Company, Limited | 51.1 | 314,924 | New Brunswick |
| Newfoundland Telephone Company Limited | 99.8 | 145,554 | Newfoundland |
| Maritime Telegraph and Telephone Company, Limited and Subsidiary | 52.1** | 434,590 | Nova Scotia and Prince Edward Island |
| Northern Telephone Limited and Subsidiary | 99.7 | 126,817 | Most municipalities of northern Ontario and northern Quebec |
| Télébec Ltée, Telontario Incorporated and Subsidiary Companies and The Capital Telephone Company Limited | 100 | 56,421 | Certain areas of Ontario and Quebec |

* At June 30, 1975.

** At June 30, 1975, Bell Canada was the registered owner of 2,142,942 shares; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder. Bell Canada designates two of Maritime's 15 directors.

Tele-Direct Ltd., a wholly-owned subsidiary of The Capital Telephone Company Limited, handles all aspects of the production and distribution of white and yellow page telephone directories, as well as the sale of the directory advertising therein, for Bell Canada and certain other Canadian telephone companies.

*Regulation*

Bell Canada is subject to regulation by the Canadian Transport Commission (the "Commission") in respect of its rates and the issuance of its capital stock. There is no statutory requirement for the Commission to fix a rate base and a rate of return on that base, or to fix a permissible level of earnings. The Board of Transport Commissioners, the predecessor of the Commission, stated in a 1966 Judgment that its jurisdiction over Bell Canada is "mainly one of fixing, determining, and enforcing just and reasonable rates and charges, free from unjust discrimination or undue preference". Between 1919 and 1966 the Board of Transport Commissioners established reasonableness of rates with reference to a level of earnings per share. However, beginning with the 1966 Judgment mentioned above, the method of testing the reasonableness of rates has taken the form of a rate of return on total average unconsolidated capital (notes payable, long term debt and shareholders' equity). From September 1969 to May 1972 the Commission granted rate increases to Bell Canada which were estimated to result in a return on total average capital ranging from 7.3% in 1969 to 7.8% in 1972. The May 1972 decision also stated that "at this time, a fair and reasonable maximum permissible rate of return on total average capital for Bell Canada is 8.2%".

In a decision dated August 15, 1974, the Commission stated that "an appropriate permissive range in rate of return on the total average capital of Bell Canada at this time is from 8.6% to 9.1%". In this decision the Commission found that a return on common equity of 11% to 12% was reasonable. At the same time, the Commission issued a proposal for a rate adjustment procedure to enable the telecommunication carriers under the Commission's jurisdiction to offset some of the increased costs resulting from inflationary pressures. Bell Canada filed a submission on March 3, 1975 in answer to the Commission's proposal and the Commission held a meeting of all interested parties on September 8, 1975 to discuss the proposal. The Commission will decide, by December 1975, what the next step will be.

On May 30, 1975 Bell Canada filed an application for increased rates which sought interim relief, effective August 1, 1975 with a second stage change to become effective October 1, 1975. The August 1 increases would have added an estimated $28,000,000 to Bell Canada's estimated 1975 operating revenues, or approximately $65,000,000 if in effect for the full year 1975, and the second stage would have raised 1975 operating revenues by another $10,000,000, or approximately $37,000,000 if in effect for the full year. The sum of these two phases would have amounted to $38,000,000 of additional revenues in 1975 and would have produced a rate of return on total average capital of 8.6% for the year. In its decision dated July 28, 1975 the Commission granted half of the interim increase requested. The remaining half of the interim increase was not denied but the Commission stated that "further consideration is deferred until the hearing of the full application later in the year". The hearing on the full application, including the second stage, is scheduled to commence on October 27, 1975.

Following the July 28 decision, Bell Canada decided to reduce its capital expenditure program for 1975 by about $33,000,000. In addition an attempt is being made to save a further $13,000,000 cash by slowing down the replenishment of existing inventories of equipment used in the construction and maintenance programs. The installation of certain equipment to meet existing service demands has been affected by the reduction in such expenditures. The level of future capital expenditure programs and the ability of Bell Canada to meet the increases in demand for service may be affected by, among other things, future rate awards. It is estimated that the cutbacks will increase the number of held orders (requests for service not met) that could otherwise have been expected at the end of December 1975 from 5,400 to 11,200. The average of held orders outstanding at month ends in 1973 and 1974 was 3,000 and 4,100, respectively, which in both years represented approximately 0.3% of new connections of main telephone service. It is estimated that approximately 0.4% of orders for new connections of main telephone service will be held on average for 1975.

For some time the Commission has been examining the area of cost and accounting procedures of carriers under its jurisdiction. This examination is not a part of any particular rate proceeding but is a general review of cost and accounting procedures. Bell Canada cannot predict when such review will be completed or what its outcome will be. The consultants to the Commission submitted their final report on the inquiry on November 28, 1974. A meeting of those involved in this review was held on May 1, 1975 before the Commission. Subsequent to this meeting, additional work has been undertaken by the consultants and interested parties in the areas of costing feasibility and depreciation.

An Act to establish the Canadian Radio-television and Telecommunications Commission has been passed by the Parliament of Canada. This Act will come into force on a day to be fixed by proclamation and Bell Canada will then be subject to regulation by the Canadian Radio-television and Telecommunications Commission rather than by the Canadian Transport Commission. Bell Canada cannot predict when this Act will come into force. The acts to be administered by the Canadian Radio-television and Telecommunications Commission are essentially the same as those administered by the Canadian Transport Commission in so far as such acts concern Bell Canada.

The rates of Bell Canada's telephone subsidiaries are subject to regulation by the provincial regulatory authorities in the province or provinces in which such subsidiaries operate. Since January 1, 1974 these companies have received rate awards totalling approximately $22,000,000 on an annual basis. Applications for increased rates for approximately $20,000,000 on an annual basis are currently outstanding.

*Communications Satellite*

Telesat Canada ("Telesat") was incorporated in 1969 by the Telesat Canada Act for the purpose of establishing satellite telecommunication systems to provide, on a commercial basis, telecommunication services between locations in Canada. Telesat began satellite operations in 1973. The Canadian government owns 50% of the outstanding Telesat common stock, the Company owns 28% and other Canadian telecommunication common

carriers own the balance. The Company and other telecommunication common carriers have contracted for the rental from Telesat of two east-west channels on Canada's Anik 1 communication satellite for a five-year period ending in 1978, and Bell Canada has also contracted for two additional channels on such satellite, for periods of five years ending in 1978 and 1979, enabling it to provide communications in the eastern Arctic.

**Manufacturing and Distributing**

Northern Electric is the largest telecommunication equipment manufacturer in Canada and one of the leading manufacturers of such equipment in the world. Northern Electric, through its subsidiaries, is one of the largest distributors of electrical and industrial products in Canada. Bell Canada and its telephone subsidiaries are in the aggregate Northern Electric's largest customer, representing about 54% of total sales in 1974. Northern Electric's consolidated sales outside Canada represented about 15% of its sales in 1974.

In October 1974, Bell Canada sold 2,000,000 warrants, exercisable prior to December 1, 1979, enabling holders to purchase from Bell Canada 2,000,000 Common Shares of Northern Electric at $21.50 per share. At July 31, 1975 Bell Canada owned approximately 89% of the outstanding Common Shares of Northern Electric and after completion of the offering of 5,250,000 Units and assuming exercise of outstanding warrants (1,998,724 at September 30, 1975), approximately 62% of Northern Electric's Common Shares will be owned by Bell Canada.

At June 30, 1975, Bell Canada and its telephone subsidiaries had on order from Northern Electric, for future delivery, equipment and materials with a total sales value of approximately $223,000,000 and Northern Electric had orders from third parties of approximately $233,000,000. Approximately 60% of these orders is expected to be delivered in 1975. At June 30, 1974, Northern Electric's backlog of orders from Bell Canada and its telephone subsidiaries totalled approximately $200,000,000 and from third parties totalled approximately $244,000,000. For information as to the impact on capital expenditures of Bell Canada of recent regulatory decisions, see "Regulation" under "Business of Bell Canada and its Subsidiaries".

*Manufacturing*

Telecommunication products manufactured by Northern Electric include equipment and apparatus (central office switching equipment, subscriber apparatus and business communications systems and transmission equipment) and wire and cable.

Switching equipment is used in telephone exchanges to connect both local and long distance calls. The latest generation of switching equipment uses computer control techniques and electronic circuitry. In late 1971, Northern Electric placed in commercial service the first electronic switching system in the SP-1 family of stored program computer controlled electronic switching systems and had installed 60 such systems by the end of June 1975. From the date of the first order in 1969, the cumulative number of SP-1 systems ordered to June 30, 1975 was 131 at a value of approximately $363,000,000 with a significant number being from telephone operating companies in the United States. Open orders at June 30, 1975 amounted to approximately $187,000,000.

Subscriber apparatus is the equipment used on the customer's premises and consists mainly of telephone sets and peripheral devices such as speaker units. Northern Electric manufactures business communication equipment including data systems, key telephone systems, intercom systems, private automatic branch exchanges and other specifically designed equipment employing new technological developments such as microcircuits.

Transmission equipment carries telecommunication traffic between central exchanges and includes microwave radio circuits, multiplex satellite systems and electronic equipment used with cables. Northern Electric has supplied such equipment for the international INTELSAT IV series of satellites, for both Canadian and United States domestic commercial communication satellite systems and for the LD-4 high capacity digital coaxial cable system between Montreal, Ottawa and Toronto.

Other products of Northern Electric and its subsidiaries include wire and cable for telephone operating companies as well as for the electrical power industry and equipment for use in the installation and connection of wire and cable.

Before 1958, most of the designs and much of the technology employed by Northern Electric came from Western Electric Company, Incorporated ("Western Electric"), a subsidiary of AT&T. In 1958 Northern Electric established a separate research and development organization to develop new products, thus beginning a process which over the intervening years has made Northern Electric largely self-sufficient in design and technology. Northern Electric has continuing rights to use all Western Electric's inventions on which patents were issued prior to June 30, 1974 and patents issued subsequent to that date on inventions made prior to June 30, 1974. Northern Electric has the right to use certain technical information of Western Electric and is presently negotiating for the rights to use patents on inventions made subsequent to June 30, 1974. Royalties paid by Northern Electric to Western Electric and other companies in 1974 represented less than 0.5% of Northern Electric's consolidated sales.

Northern Electric's rights to existing patented inventions of Western Electric and of AT&T and to certain of Western Electric's technical information will not be affected by the termination of the Service Agreement between Bell Canada and AT&T. (See "Certain Contracts of Bell Canada".)

*Markets*

The main market in Canada for telecommunication equipment consists of telephone operating companies. In 1974, more than 760,000 telephones were added to the Canadian network of which some 65% were added by the Company. The principal market of Northern Electric and its subsidiaries outside Canada is in the United States and consists primarily of those telephone operating companies which are independent of the U.S. Bell System connecting about 26,000,000 telephones; of this market approximately 12,000,000 telephones belong to the General Telephone & Electronics group which manufactures most of its own equipment.

Northern Telecom, Inc. ("NTI"), a wholly-owned subsidiary of Northern Electric with its headquarters in Waltham, Massachusetts, was formed in 1971 to manufacture and market telecommunication equipment in the United States. In 1974, NTI's sales were U.S. $93,200,000 and for the first six months of 1975 totalled U.S. $40,400,000, as compared with U.S. $46,200,000 for the first six months of 1974. NTI has 5 plants in the United States.

Markets outside North America include telecommunication systems owned primarily by governments. Although the potential growth of these markets is considered higher than that of North America, access to them is more difficult because of government policies favouring purchases from traditional suppliers and the different technical requirements of the many countries involved. In its move to expand its international markets, Northern Electric has a manufacturing subsidiary in Ireland and is engaged in a joint venture with the Turkish telecommunication authority. Subsidiaries of Northern Electric have recently opened offices in Amsterdam, London, Hong Kong and Singapore. Northern Electric has entered into various licensing agreements with other companies to manufacture its products, the most recent being one with Thomson-CSF to manufacture SP-1 systems in France for sale there and in certain other countries.

*Distributing*

Nedco (1975) Ltd. (formerly Microsystems International Limited) acquired the assets (including subsidiaries) and assumed the liabilities of Nedco Ltd. effective June 1, 1975. Nedco Ltd. and its subsidiaries were engaged (and Nedco (1975) Ltd. and its subsidiaries ("Nedco") are now engaged) in the distribution of electrical, electronic and industrial products from sales offices and warehouses in 41 Canadian cities. Nedco distributes more than 15,000 industrial, electrical and electronic products from over 200 manufacturers, with Northern Electric supplying less than 23% of Nedco Ltd.'s purchases in 1974. The main product groups are wire and cable, wiring supplies, illumination products, utility products, motors, control systems, and more recently, telecommunication and industrial electronic products.

Nedco's major markets are electrical contractors and the manufacturing industry, which together account for 65% of total sales. Power utilities, telephone operating companies, the mining industry and governments account for most of the remainder of the sales. No one customer accounted for more than 2% of 1974 sales of Nedco Ltd.

**Research and Development**

In 1973 and 1974 the Company's expenses for research and development aggregated about $51,000,000 and $66,000,000, respectively. Approximately $37,000,000 and $45,000,000, respectively, of these amounts were paid to BNR, which is owned 51% by Bell Canada and 49% by Northern Electric and which operates research and development laboratories undertaking the major part of the Company's research activities. With a staff of over 1,700 employees, including over 750 engineers, scientists and technical personnel, BNR is the largest industrial and development organization in Canada. It carries out research, design, development, long range planning and systems engineering in all fields of telecommunications. The balance of the research and development expenditure was incurred in Bell Canada's and Northern Electric's own research programmes.

**Competition**

The Company does not have exclusive franchises to furnish its regulated telecommunication services. However, no other company offers public switched network telephone service (local and long distance) in the Company's service area and the establishment of any such service would require permission of governmental and/or regulatory authorities. Other telecommunication carriers offer private line voice and data telecommunication services, and switched network data telecommunication services, in areas which include the Company's service areas. In addition some companies operate telecommunication systems providing themselves with telecommunication services, mainly private line, similar to those offered by the Company.

Under applicable law subscribers may connect various types of terminal equipment provided by themselves, mainly in the data field, to Bell Canada's telephone network, provided such attachments are in conformity with such reasonable requirements as may be prescribed by Bell Canada. In the voice field, with very few exceptions, connection of customer provided equipment has not been permitted by Bell Canada. On October 2, 1975, the Superior Court of the Province of Quebec issued an interlocutory injunction enjoining Bell Canada from interfering in the business relations of Harding Communications Ltd. with its customers, concerning the installation of "Divert-a-Call" (equipment which automatically diverts telephone calls from one line to another), by threatening to interrupt telephone service in cases where such equipment would be installed without Bell Canada's consent, when such consent is requested for connection in conformity with the tariff. This is not a final judgement and is subject to revision when the case is heard on the merits, and it, as well as the final judgement, would be subject to appeal.

Northern Electric encounters competition in the telecommunication market from many companies which vary from very small, highly specialized manufacturers to large multinational companies. Northern Electric sells to all segments of the Canadian telephone operating company market and believes that it has in excess of 70% of this market. Major competitors in Canada include subsidiaries of General Telephone & Electronics Corporation and International Telephone and Telegraph Corporation. Northern Electric encounters significant competition in selling its products outside Canada.

**Employee Relations**

At June 30, 1975 Bell Canada had approximately 47,000 employees. Most of the 36,000 non-management personnel were represented by two unions, 28,000 by the Canadian Telephone Employees' Association and 8,000 by the Communications Union Canada (formerly the Traffic Employees' Association). Bell Canada understands that the Communications Workers of Canada has applied to the Canada Labour Relations Board for certification as bargaining agent for approximately 12,500 craft and services employees of Bell Canada, which employees are at present represented by the Canadian Telephone Employees' Association. In November 1974 a one year contract was entered into with the Canadian Telephone Employees' Association, and in November 1973 a three year contract was entered into with the Communications Union Canada which, in addition to wage increases, included a cost of living allowance in the second and third years.

At June 30, 1975 the telephone subsidiaries of Bell Canada had approximately 9,000 employees of whom approximately 59% were unionized. Approximately 2,200 of these employees, employed by Maritime Telegraph and Telephone Company, Limited and Northern Quebec Telephone Inc., a subsidiary of Northern Telephone Limited, are at present on strike. Certain employees of Maritime Telegraph and Telephone Company, Limited have been on strike for approximately 8 weeks and employees of Northern Quebec Telephone Inc. have been on strike since July 27, 1975. Services are being maintained by supervisory personnel. At June 30, 1975 over 70% of the approximately 23,000 employees of Northern Electric and its subsidiaries were represented by unions. Northern Electric's principal labour contracts were entered into in 1973, expire early in 1976 and include a cost of living allowance in all three years. At June 30, 1975 other subsidiaries of Bell Canada had approximately 3,000 employees, of whom approximately 25% were unionized.

## DESCRIPTION OF PROPERTY OF BELL CANADA AND ITS SUBSIDIARIES

The physical properties of Bell Canada do not lend themselves to description by character and location of principal units. At June 30, 1975 central office equipment represented 36% of Bell Canada's investment in telecommunication property; land and buildings (occupied principally by central offices) represented 7%; telecommunication instruments and related wiring and equipment, including private branch exchanges, substantially all of which are on the premises of customers, represented 20%; connecting lines not on customers' premises, the majority of which are adjacent to or under public roads, highways and streets and the remainder on or under private property, represented 29%; and plant under construction, work equipment and office furniture comprised the remainder.

The physical properties of Bell Canada are subject to a fixed and specific first charge and mortgage created by a Trust Indenture and Mortgage dated as of March 1, 1925 and indentures supplemental thereto.

The physical properties of Bell Canada's telephone subsidiaries are represented by the same kinds of assets as those of Bell Canada. The physical properties of Newfoundland Telephone Company Limited, Télébec Ltée and Maritime Telegraph and Telephone Company, Limited and its subsidiary, The Island Telephone Company, Limited, are subject to fixed and specific first mortgages and charges securing their respective debt obligations.

Northern Electric and its subsidiaries at July 31, 1975 operated plants and warehouses in all 10 provinces of Canada, occupying some 6,470,000 square feet of space, of which approximately 2,563,000 square feet were leased. At such date its subsidiary in the United States, NTI, had 5 plants occupying a total of 345,000 square feet, of which 145,000 square feet were leased. Other subsidiaries of Northern Electric at July 31, 1975 had 3 other plants located in 3 other countries.

## CERTAIN CONTRACTS OF BELL CANADA

### Service Agreement

Bell Canada formerly had an agreement (the "Service Agreement") with AT&T under which Bell Canada and its telephone operating subsidiaries were entitled to use, for a consideration, telephone devices, apparatus, methods, systems, assistance and advice needed for its telecommunication business, including matters covered by Canadian patents owned or controlled by AT&T or any of its subsidiaries, and which AT&T had the right to authorize Bell Canada and its operating subsidiaries to use.

Under a separate agreement with Bell Telephone Laboratories, Incorporated, Bell Canada received, for a consideration, the benefits of development work carried on by Bell Telephone Laboratories, Incorporated for electronic data processing and business information systems and programs.

By mutual consent both agreements were terminated without financial penalties to either party as of June 30, 1975 except that the parties retain reciprocal rights with respect to certain patents under the first agreement and except that the second agreement continues in effect with respect to projects underway at that date. In the opinion of management, Bell Canada will not be adversely affected by such termination due to its own increasing expertise and to the expanding research and development activities of BNR. (See "Research and Development" under "Business of Bell Canada and its Subsidiaries".)

### Agreements for Sharing of Revenues

Bell Canada, as a member of TCTS, is a party to agreements with TCTS companies and with AT&T which provide for the sharing of revenues from jointly furnished long distance services.

### Supply Contract

Bell Canada has an agreement with Northern Electric under which Northern Electric agrees, to the extent reasonably required for Bell Canada's business, to manufacture materials or purchase materials manufactured by others, to sell such materials to Bell Canada, to maintain stocks at distributing points, to prepare equipment specifications and to perform installations of materials, and to repair or dispose of used materials returned by Bell Canada. Northern Electric's prices and terms are to be as low as those offered to its most favoured customers for like materials and services under comparable conditions in effect at the date of the order.

## MANAGEMENT OF BELL CANADA

### Directors

The directors of Bell Canada are elected annually and hold office until the next Annual General Meeting or until their successors are elected or appointed. The directors, their ages, year first elected or appointed as director, addresses, other positions with Bell Canada presently held and principal occupations during the past five years are as follows:

| Director's Name, (Age), Year First Elected and Home Address | Principal Occupations |
|---|---|
| WILLIAM MATHEWS VACY ASH, O.C. (68) 1966<br>76 Old Forest Hill Road, Toronto, Ont. | Director of Bell Canada and various other companies. |
| MARCEL BÉLANGER, O.C., C.A. (55) 1969<br>839 Eymard, Quebec, Que. | Partner, Bélanger, Dallaire, Gagnon & Associés, Chartered Accountants. |
| GEORGE ALLAN BURTON, D.S.O., E.D. (60) 1974<br>Limestone Hall Farms, Walkers Line, R.R. 2, Milton, Ont. | Chairman of the Board and Chief Executive Officer, Simpsons, Limited, retail department stores. |
| *ALBERT JEAN DE GRANDPRÉ, Q.C. (54) 1972<br>156 Springgrove Crescent, Outremont, Que. | President of Bell Canada. |
| JAMES DOUGLAS GIBSON, O.B.E. (66) 1970<br>406 Glenayr Road, Toronto, Ont. | Economic Consultant. |
| HENRY CLIFFORD HATCH (59) 1974<br>7130 Riverside Drive East, Windsor, Ont. | President and Chief Executive Officer, Hiram Walker-Gooderham & Worts Limited, an international distiller. |
| HELEN SAWYER HOGG, O.C. (70) 1968<br>98 Richmond Street, Richmond Hill, Ont. | Research Professor of Astronomy, University of Toronto. |
| JAMES WINSLOW KERR (61) 1970<br>5 Old Forest Hill Road, Toronto, Ont. | Chairman and Chief Executive Officer, TransCanada PipeLines Limited, a gas transmission company. |
| *HERBERT HAYMAN LANK (71) 1960<br>168 Edgehill Road, Westmount, Que. | Director, Du Pont of Canada Limited, an integrated chemical company. |

| Director's Name, (Age), Year First Elected and Home Address | Principal Occupations |
|---|---|
| *John Cunningham Lobb (62) 1973<br>1115 Sherbrooke Street West, Montreal, Que. | Chairman of the Board and Chief Executive Officer of Northern Electric. |
| Donald McInnes, q.c. (71) 1967<br>5780 Inglis Street, Halifax, N.S. | Senior Partner, McInnes, Cooper & Robertson, Barristers and Solicitors. |
| Edward Neil McKelvey, q.c. (50) 1973<br>14 Beach Crescent, Saint John, N.B. | Partner, McKelvey, Macaulay, Machum & Fairweather, Barristers and Solicitors. |
| *John Henderson Moore (59) 1966<br>Creek Cottage, R.R. 2, Lambeth, Ont. | President, Brascan Limited, a diversified holding company. |
| *Gérard Plourde (59) 1973<br>6065 de Vimy Avenue, Montreal, Que. | Chairman of the Board and Chief Executive Officer, U A P Inc., an automotive parts distributor. |
| Louis Rasminsky, c.c., c.b.e. (67) 1973<br>440 Roxborough Avenue, Rockcliffe Park, Ottawa, Ont. | Director of several companies; Chairman of the Board of Governors of International Development Research Centre (Canada). |
| John Parmenter Robarts, p.c., c.c., q.c. (58) 1971<br>1084 The Parkway, London, Ont. | Member of Stikeman, Elliott, Robarts & Bowman, Barristers and Solicitors. |
| *Harold Rocke Robertson, c.c., m.d. (63) 1965<br>301 Buena Vista Road, Rockcliffe, Ottawa, Ont. | Director of Bell Canada. |
| Lucien Gilbert Rolland (58) 1965<br>90 Summit Circle, Westmount, Que. | President and General Manager, Rolland Paper Company, Limited, a paper manufacturer. |
| *Robert Carlton Scrivener (60) 1967<br>1321 Sherbrooke Street West, Montreal, Que. | Chairman of the Board and Chief Executive Officer of Bell Canada. |
| Louise Brais Vaillancourt (49) 1975<br>75 Courcelette Avenue, Outremont, Que. | President of La Corporation de l'Hôpital Marie Enfant. |

*Member of the Executive Committee.

All of the above-named directors of Bell Canada have held their present positions or other executive positions with the same or associated firms or organizations during the past five years, except as follows: Mr. J. C. Lobb was, prior to June 1971, President of John C. Lobb Associates, Management Consulting firm, and was, prior to 1971, a partner of Donaldson, Lufkin & Jenrette, a United States investment banking firm, President and Chief Executive Officer of Crucible Steel Corporation and Executive Vice-President of International Telephone and Telegraph Corporation; Mr. L. Rasminsky was, prior to March 1973, Governor of the Bank of Canada; and Mr. J. P. Robarts became a member of Stikeman, Elliott, Robarts & Bowman in April 1971 and prior to that date was Prime Minister of Ontario.

**Officers**

The officers, their ages, addresses and offices presently held are as follows:

| Name, (Age) and Home address | Offices Presently Held |
|---|---|
| Robert Carlton Scrivener (60)<br>1321 Sherbrooke Street West, Montreal, Que. | Chairman of the Board and Chief Executive Officer |
| Albert Jean de Grandpré, q.c. (54)<br>156 Springgrove Crescent, Outremont, Que. | President |
| Joseph Victor Raymond Cyr (41)<br>3201 Place Hélène Boullé, Montreal, Que. | Executive Vice-President, Eastern Region |
| Gordon Ellis Inns (49)<br>39 Longwood Drive, Don Mills, Ont. | Executive Vice-President, Western Region |
| James Carden Thackray (51)<br>481 Roslyn Avenue, Westmount, Que. | Executive Vice-President, Operations |
| Orland Tropea (56)<br>139 Bathurst Avenue, Pointe Claire, Que. | Executive Vice-President, Administration |
| Wilfred Duncan Essery Anderson (52)<br>79 Brunswick Drive, Beaconsfield, Que. | Vice-President, Engineering and Planning |
| Harry Bowler (50)<br>22 Edgehill Road, Westmount, Que. | Vice-President, Finance |
| Joseph Robert Brûlé (46)<br>201 Corot Rive, Nuns' Island, Que. | Vice-President, Operations Staff (Eastern Region) |
| Robert Wilfred Crowley (52)<br>1363 Gatehouse Drive, Port Credit, Ont. | Vice-President, Western Area |
| Claude Duhamel (53)<br>12480 Notre-Dame-des-Anges Street, Montreal, Que. | Vice-President, Administration (Eastern Region) |
| John Hugh Farrell (38)<br>94 Prince Street, Beaconsfield, Que. | Vice-President, Regulatory Matters |
| Charles Alexander Harris (55)<br>25 Westwood Drive, Pointe Claire, Que. | Vice-President, Public and Environmental Affairs |
| George Leslie Henthorn (52)<br>115 Charnwood Road, Beaconsfield, Que. | Vice-President & Comptroller |
| Frederick Elderidge Ibey (52)<br>450 The Kingsway, Islington, Ont. | Vice-President, Operations Staff (Western Region) |

| Name, (Age) and Home Address | Offices Presently Held |
|---|---|
| PALLE KIAR (46)<br>148 Heath Street, Ottawa, Ont. | Vice-President, Montreal Area |
| JOHN ARTHUR McCUTCHEON (49)<br>300 Driveway, Ottawa, Ont. | Vice-President, Intercorporate Policy |
| ANDREW MAURICE McMAHON (40)<br>316 Smyth Road, Ottawa, Ont. | Vice-President, Computer Communications |
| JOSEPH LÉONCE MONTAMBAULT (43)<br>1295 Nelles Street, Ste-Foy, Que. | Vice-President, Eastern Area |
| LAWRENCE JOSEPH O'KEEFE (45)<br>200 Elgar Street, Nuns' Island, Que. | Vice-President, Systems |
| HARRY PILKINGTON (53)<br>3515 Redpath Street, Montreal, Que. | Vice-President, Personnel |
| HUBERT AUGUST ROTH (52)<br>62 York Road, Beaconsfield, Que. | Vice-President, Operational Staff |
| JOHN EDGAR SKINNER (56)<br>12 Romney Road, Islington, Ont. | Vice-President, Toronto Area |
| RICHARD DOUGLAS SLOANE (45)<br>26 Chinook Crescent, Ottawa, Ont. | Vice-President, Central Area |
| JOHN FLOYD STINSON (50)<br>150 Sherwood Drive, Ottawa, Ont. | Vice-President, Network Services |
| ROBERT NEIL WASHBURN (53)<br>1105 Fairbirch Drive, Mississauga, Ont. | Vice-President, Administration (Western Region) |
| HAROLD ERIC HARRIS (63)<br>2155 Sunset Road, Town of Mount Royal, Que. | Treasurer |
| GUY HOULE (40)<br>1895 de la Duchesse Street,<br>Saint-Bruno de Montarville, Que. | General Counsel |
| JAMES THOMAS MOORE (60)<br>136 Wicksteed Avenue, Town of Mount Royal, Que. | Secretary |

All of the officers of Bell Canada have been employed in their present positions or other senior positions with Bell Canada or one or more of its subsidiaries or associated companies for five years or more, except as follows: Mr. H. Bowler was, prior to his appointment with Bell Canada on May 1, 1973, associated with The International Nickel Company of Canada, Limited in New York as Comptroller; Mr. C. A. Harris was, prior to his appointment with Bell Canada on June 30, 1972, associated with Canadian National Railways, Montreal, as Vice-President, Public Relations; and Mr. L. J. O'Keefe was, prior to his appointment with Bell Canada on May 1, 1972, associated with Fabergé Inc., New York.

**Remuneration of Directors and Officers**

The following table shows aggregate direct remuneration paid in 1974 by Bell Canada and its subsidiaries for services rendered and estimated annual benefits upon retirement for the three highest paid officers and for each director whose remuneration during the time he served as such exceeded $40,000 and also remuneration for all officers and directors as a group.

| Name and Capacities in which Direct Remuneration was Received | Aggregate Direct Remuneration* | Estimated Annual Regular Pension Benefits upon Retirement |
|---|---|---|
| R. C. Scrivener<br>Chairman of the Board and Chief Executive Officer of Bell Canada and Director of Northern Electric | $ 191,100 | $ 80,550 |
| A. J. de Grandpré<br>President of Bell Canada, Director of Northern Electric and Director of Nevron Industries Company Limited (a subsidiary of Northern Electric) | $ 161,906 | $ 62,338 |
| J. C. Lobb<br>Director of Bell Canada, Chairman of the Board and Chief Executive Officer and prior to August 1, 1974 President and Chief Executive Officer of Northern Electric. Chairman of the Board and prior to March 1, 1974 Chairman of the Board and President of NTI | $ 133,615 | (A) |
| J. C. Thackray<br>Executive Vice-President, Operations of Bell Canada, Director of Maritime Telegraph and Telephone Company, Limited, Director of The New Brunswick Telephone Company, Limited, Director of Northern Electric and of Nedco Ltd. | $ 121,330 | $42,061 |
| Officers and Directors as a group<br>(Consisting of 52 persons, including those named above) | $2,686,000 | |

*Includes Bell Canada's contributions under the Employees' Savings Plan (1970).

(A) Mr. J. C. Lobb has agreements with Northern Electric and NTI providing for a special pension and retirement plan due to his inability to participate in Northern Electric's pension plan because of his age at time of employment. As of August 21, 1975 Mr. J. C. Lobb was entitled upon his retirement to

aggregate benefits of $87,600 per annum for life (with a guaranteed period of 10 years) and may from time to time in the future be awarded supplemental amounts at the discretion of the Boards of Directors of Northern Electric and NTI.

Mr. J. C. Lobb has employment contracts to serve as Chairman of the Board and Chief Executive Officer of Northern Electric and as Chairman of the Board of NTI in each case until May 31, 1978. These contracts are terminable in each case by either party on one month's notice; in the event of termination by Mr. J. C. Lobb, he is entitled to all accrued and unpaid salary; and, in the event of termination by the employing company, he is entitled to an amount equal to one-half of annual salary in addition to all accrued and unpaid salary.

Mr. J. C. Lobb also has an agreement to act as consultant to NTI either upon retirement in 1978 or termination of employment by mutual consent at any time after May 31, 1976 for a period not exceeding 7 years from such date of retirement or termination at an annual retainer of U.S. $30,000.

Bell Canada has agreed to pay Mr. R. C. Scrivener and Mr. A. J. de Grandpré, in addition to the regular pension benefits noted above, a one-time retirement allowance consisting of the aggregate of all such amounts as may be determined by the Board of Directors of Bell Canada in respect of each year of employment since December 31, 1972. Bell Canada's total liability, which has been funded, in respect of all such payments through June 30, 1975, is $329,000.

**Shareholdings**

As at July 31, 1975 all directors and officers of Bell Canada as a group owned in the aggregate beneficially, directly or indirectly, less than 0.25% of any class of shares of Bell Canada or its subsidiaries.

## EMPLOYEES' SAVINGS PLAN AND OPTIONS

Under Bell Canada's Employees' Savings Plan (1966), as in effect from July 1, 1966 to June 30, 1970, any regular employee of Bell Canada and certain of its approved subsidiaries was eligible to subscribe for Common Shares of Bell Canada through payroll deductions of 2%-10% of his basic wages and/or assignment of 20%-100% of dividends from shares acquired under this or former plans. The payment period commenced each year on July 1 and concluded on June 30 of the following year. The subscription price per share was 85% of the lesser of the average market price during the three month period prior to the commencement of the payment period or during the last three months of the payment period. An employee could withdraw his accumulated payroll deductions and/or assigned dividends at any time. Effective July 1, 1970, the payroll deduction portion of the Plan was cancelled. For the time being, the assignment of the dividend portion will continue for those employees who were enrolled for assignment of dividends under the Plan prior to July 1, 1970. At July 31, 1975, there was $1,522,000 standing to the credit of employees of Bell Canada and certain approved subsidiaries for purchase of shares under the Plan. During the year ended December 31, 1974, 139,925 Common Shares of Bell Canada were issued under Bell Canada's Employees' Savings Plan (1966) for an aggregate consideration of $4,950,000 (average per share $35.38). Included in the above figures, 1,801 Common Shares were issued to officers for an aggregate consideration of $63,000 (average per share $34.98), including 131 shares issued to Mr. R. C. Scrivener and 59 shares to Mr. A. J. de Grandpré. During the six months ended June 30, 1975, 2,873 Common Shares of Bell Canada were issued under the Plan for an aggregate consideration of $102,000 (average per share $35.50). None of these Common Shares was issued to officers or directors.

Under a stock option plan authorized by NTI there are reserved 125,000 of its common shares (equal to 5% of the total presently outstanding) for issuance, at not less than the fair market value on the date the option is granted, to certain officers and key employees of NTI and its subsidiaries upon the exercise of options, all of which must be exercised in full within five years after their respective dates of grant. As of July 31, 1975 options to purchase 73,000 shares had been granted under the plan, 47,500 shares at U.S. $12.50 per share and expiring on various dates during 1978 (including 9,500 to Mr. J. C. Lobb) and 25,500 shares at U.S. $20 per share and expiring on various dates during 1979 and 1980. Options for 7,500 shares at U.S. $12.50 per share have been terminated. There is no reasonably ascertainable market value for these shares and exercise prices were determined in relation to projected earnings. Options were outstanding at July 31, 1975 as follows:

| | |
|---|---|
| — to senior officers of Northern Electric | 18,000 shares |
| — to directors and senior officers of NTI not included above | 32,500 shares |
| — to other employees of NTI | 15,000 shares |

The Board of Directors of NTI has taken action to terminate the NTI stock option plan and all outstanding options will be withdrawn in the near future. Holders of such options, other than Mr. J. C. Lobb, will receive additional pension benefits in substitution for such options.

## DESCRIPTION OF CAPITAL STOCK OF BELL CANADA

The Charter of Bell Canada provides that its equity capital shall be divided into Common Shares, par value $25 per share, and Preferred Shares. The issue of equity capital is subject to the approval of the Canadian Transport Commission as to amount, terms and conditions. The Board of Directors of Bell Canada is authorized, subject to By-law duly sanctioned by shareholders, to designate the Preferred Shares by series or otherwise, describe the preferences, privileges, rights, conditions and limitations of and attaching to the various classifications of classes or series of Preferred Shares and authorize their issue.

### Common Shares

Each Common Share of Bell Canada is equal to every other Common Share and all Common Shares participate equally in any liquidation and distribution of assets. Subject to the rights of the Preferred Shares, the holders of Common Shares are entitled to receive such cash dividends as may be declared by the Board of Directors out of funds legally available therefor. Common shareholders are entitled to one vote for each share held of record on all matters voted on by shareholders. There are no cumulative voting rights in electing directors and holders of Common Shares have no preemptive, redemption or conversion rights. The outstanding Common Shares of Bell Canada are fully paid and non-assessable. Other than the Preferred Shares, there are no provisions in any contract to which Bell Canada is a party restricting the payment of cash dividends on or affecting the voting rights of Common Shares.

Bell Canada has a Shareholder Dividend Reinvestment Plan which provides a means for holders of record of Bell Canada Common Shares to invest cash dividends and optional cash payments (including interest and dividends paid on other securities of Bell Canada) in additional Common Shares. The funds to be received on behalf of the participants are administered by National Trust Company, Limited. Bell Canada keeps records, sends quarterly statements of account and performs other duties relating to the Plan. The Plan does not involve the issuance of new Common Shares by Bell Canada; National Trust Company, Limited makes purchases of Common Shares on stock exchanges where the Common Shares are traded or in negotiated transactions.

### Preferred Shares

The shareholders of Bell Canada have authorized the issuance of Preferred Shares to a maximum par value of $625,000,000. The Preferred Shares are subject to certain mandatory redemption provisions and to certain optional provisions of redemption and cancellation by Bell Canada. Each $3.20 Preferred Share, $3.34 Preferred Share and $4.23 Preferred Share is convertible into one Common Share of Bell Canada on or before February 1, 1982, August 1, 1983 and December 1, 1986, respectively. Every two $2.28 Preferred Shares are convertible into one Common Share of Bell Canada on or before July 2, 1987. At June 30, 1975 6,341,025 Common Shares had been reserved for this purpose. For details of Preferred Shares outstanding, see Note 3 of Notes to Financial Statements of Bell Canada and Subsidiary Companies.

Holders of Preferred Shares are entitled to one vote for each share held of record on all matters voted upon by shareholders and rank equally both as to the order of priority in payment of dividends and in the distribution of assets in the event of any liquidation, dissolution or winding-up of Bell Canada. The Preferred Shares rank prior to the Common Shares both as to dividends and capital distribution upon liquidation. At June 30, 1975 the aggregate involuntary liquidation preference was approximately $359,726,000.

## TRANSFER AGENTS AND REGISTRARS

The Preferred Shares and the Common Shares of Bell Canada are transferable at the office of the Treasurer of Bell Canada in Montreal, Bell Canada's Stock Transfer Office in Toronto and at the offices of Bell Canada's transfer agent, The Royal Trust Company, in St. John's, Halifax, Charlottetown, Saint John, Winnipeg, Regina, Calgary and Vancouver. The registrar for the Preferred Shares and the Common Shares of Bell Canada is Montreal Trust Company.

The United States registrar and transfer agent for the Common Shares of Bell Canada is Morgan Guaranty Trust Company of New York, 30 West Broadway, New York, N.Y. 10015.

## INDEX TO FINANCIAL STATEMENTS OF BELL CANADA



## REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

To the Board of Directors
Bell Canada

We have examined the consolidated balance sheet of Bell Canada and subsidiary companies and the balance sheet of Bell Canada at June 30, 1975, the consolidated statements of income, premium on capital stock, contributed surplus, retained earnings and changes in financial position of Bell Canada and subsidiary companies and the statements of income, retained earnings and changes in financial position of Bell Canada for the five years ended December 31, 1974 and for the six months ended June 30, 1974 and 1975. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

(a) the accompanying consolidated balance sheet and consolidated statements of income, premium on capital stock, contributed surplus, retained earnings and changes in financial position of Bell Canada and subsidiary companies present fairly the consolidated financial position of Bell Canada and subsidiary companies at June 30, 1975, the results of their operations and the changes in their financial position for the five years ended December 31, 1974 and for the six months ended June 30, 1974 and 1975,

(b) the accompanying balance sheet, statements of income, retained earnings and changes in financial position of Bell Canada present fairly the financial position of Bell Canada at June 30, 1975, the results of its operations and the changes in its financial position for the five years ended December 31, 1974 and for the six months ended June 30, 1974 and 1975,

all in accordance with generally accepted accounting principles applied on a consistent basis.

Montreal, Quebec
Canada
October 6, 1975

(Signed) Touche Ross & Co.
Chartered Accountants

## BELL CANADA AND SUBSIDIARY COMPANIES

## CONSOLIDATED BALANCE SHEET

(thousands of dollars)

### ASSETS

| | June 30, 1975 |
|---|---|
| **Telecommunication Property** — at cost | |
| Buildings, plant and equipment | $6,672,587 |
| *Less:* Accumulated depreciation | 1,902,066 |
| | 4,770,521 |
| Land | 50,101 |
| Plant under construction | 326,686 |
| Material and supplies | 115,384 |
| | 5,262,692 |
| **Manufacturing and Distributing Property** — at cost | |
| Buildings, plant and equipment | 324,789 |
| *Less:* Accumulated depreciation | 184,885 |
| | 139,904 |
| Land | 7,634 |
| | 147,538 |
| | 5,410,230 |
| **Investments** — at cost | 20,764 |
| **Current Assets** | |
| Cash and temporary cash investments — at cost (approximates market) | 185,921 |
| Accounts receivable — principally from customers and agents (less provision for uncollectibles $5,805) | 314,139 |
| Inventories (Note 2) | 236,326 |
| Other (principally prepaid expenses) | 64,249 |
| | 800,635 |
| **Deferred Charges** | 57,434 |
| Total Assets | $6,289,063 |

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | |
|---|---|
| **Shareholders' Equity** (Notes 3 and 4) | |
| Capital Stock — | |
| Preferred | $ 359,726 |
| Common | 982,549 |
| Premium on capital stock | 431,916 |
| Contributed surplus | 15,292 |
| Retained earnings | 572,147 |
| | 2,361,630 |
| **Minority Interest in Subsidiary Companies** | |
| Capital stock | 148,378 |
| Retained earnings | 52,022 |
| | 200,400 |
| **Long Term Debt** (Note 5) | 2,562,996 |
| **Notes Payable** (Note 6) | 64,445 |
| **Current Liabilities** | |
| Bank advances | 20,554 |
| Accounts payable — | |
| Employees' payrolls | 28,463 |
| Vacation pay accrued | 30,750 |
| Other | 195,420 |
| Advance billing for service | 31,607 |
| Dividends payable | 38,012 |
| Taxes accrued | 29,589 |
| Interest accrued | 41,356 |
| | 415,751 |
| **Deferred Credits** | |
| Income taxes | 661,232 |
| Unamortized investment tax credit | 11,460 |
| Employees' savings plans (Note 4) | 6,896 |
| Other | 4,253 |
| | 683,841 |
| **Commitments** (Note 7) | |
| Total Liabilities and Shareholders' Equity | $6,289,063 |

## BELL CANADA AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

**(thousands of dollars)**

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| **Source of Funds** | | | | | | | |
| Operations — | | | | | | | |
| Income before extraordinary items | $ 132,802 | $ 151,230 | $ 176,394 | $ 199,975 | $ 224,436 | $ 117,497 | $ 116,894 |
| Items not affecting current funds — | | | | | | | |
| Depreciation | 221,109 | 239,763 | 274,391 | 311,704 | 359,199 | 178,822 | 200,588 |
| Deferred income taxes | 30,726 | 52,530 | 84,425 | 89,847 | 96,445 | 43,464 | 53,276 |
| Other — net | (2,042) | 316 | 2,826 | 1,895 | 3,072 | 2,871 | 3,701 |
| **Total from operations** | **382,595** | **443,839** | **538,036** | **603,421** | **683,152** | **342,654** | **374,459** |
| Extraordinary item | — | — | — | 5,396 | — | — | — |
| Adjustment to deferred income taxes (Note B) | — | 9,641 | 29,405 | 22,398 | — | — | — |
| Proceeds from long term debt | 207,688 | 177,308 | 156,157 | 215,154 | 333,507 | 155,934 | 246,802 |
| Proceeds from notes payable (net) | — | — | — | — | 48,430 | 38,791 | 2,739 |
| Proceeds from preferred shares | 91,207 | 100,531 | — | 49,788 | 91,449 | — | 123,389 |
| Proceeds from issues of shares of subsidiaries to minority shareholders | 20,098 | 1,358 | 24,442 | 40,984 | 14,279 | 12,023 | 46,177 |
| Deposits under employees' savings plan | 14,595 | 4,882 | 4,698 | 4,814 | 5,038 | 2,515 | 2,677 |
| Decrease in working capital | 1,283 | — | 16,712 | — | — | 2,891 | — |
| Miscellaneous | 1,986 | 5,791 | 10,398 | 4,132 | 8,691 | 3,522 | 2,818 |
| | **$ 719,452** | **$ 743,350** | **$ 779,848** | **$ 946,087** | **$1,184,546** | **$ 558,330** | **$ 799,061** |
| **Disposition of Funds** | | | | | | | |
| Capital expenditures — | | | | | | | |
| Gross capital expenditures | $ 481,402 | $ 554,561 | $ 606,311 | $ 693,461 | $ 982,992 | $ 446,104 | $ 552,380 |
| *Deduct:* charges not requiring funds | (16,346) | (18,510) | (19,237) | (21,690) | (30,051) | (15,507) | (16,866) |
| Increase in material and supplies | 8,138 | 12,419 | 11,186 | 20,555 | 12,217 | 17,770 | 19,992 |
| **Net expenditures** | **473,194** | **548,470** | **598,260** | **692,326** | **965,158** | **448,367** | **555,506** |
| Extraordinary item | — | — | — | — | — | — | 2,429 |
| Dividends by Bell Canada | 96,362 | 106,552 | 110,621 | 119,288 | 133,534 | 66,168 | 77,511 |
| Dividends by subsidiaries to minority shareholders | 4,429 | 4,695 | 5,852 | 6,839 | 9,241 | 4,293 | 6,340 |
| Repayment of long term debt | 21,189 | 13,403 | 49,804 | 41,411 | 34,657 | 30,727 | 69,413 |
| Repayment of notes payable (net) | 107,015 | 6,128 | 3,189 | 10,995 | — | — | — |
| Acquisition of investments | 6,165 | 10,809 | 4,711 | 2,958 | 2,710 | 1,681 | 7,416 |
| Increase in working capital | — | 47,379 | — | 55,037 | 36,101 | — | 75,312 |
| Miscellaneous | 11,098 | 5,914 | 7,411 | 17,233 | 3,145 | 7,094 | 5,134 |
| | **$ 719,452** | **$ 743,350** | **$ 779,848** | **$ 946,087** | **$1,184,546** | **$ 558,330** | **$ 799,061** |
| **The increase (decrease) in working capital is accounted for by —** | | | | | | | |
| Increase (decrease) in current assets: | | | | | | | |
| Cash and temporary cash investments | $ 67,715 | $ 61,883 | $ (264) | $ 53,787 | $ (103,661) | $ (57,132) | $ 125,815 |
| Accounts receivable | 2,045 | 16,427 | 10,122 | 29,800 | 83,327 | 35,826 | (25,007) |
| Inventories | (2,934) | (22,267) | 384 | 64,750 | 78,605 | 66,680 | (19,574) |
| Other | 1,706 | 2,602 | 10,508 | 5,706 | 8,196 | 13,684 | 17,680 |
| (Increase) decrease in current liabilities: | | | | | | | |
| Bank advances | 2,578 | (7,091) | (8,940) | (10,880) | 9,096 | (34,514) | (2,488) |
| Accounts payable | (42,695) | (23,179) | (15,085) | (58,785) | (21,544) | (20,486) | (24,443) |
| Advance billing for service | 2,041 | (1,871) | (2,884) | (2,462) | (3,622) | (1,793) | (2,392) |
| Dividends payable | (1,530) | (2,091) | (314) | (2,173) | (3,988) | (2,718) | (4,248) |
| Taxes accrued | (26,262) | 25,532 | (6,580) | (21,128) | (7,855) | (2,236) | 14,446 |
| Interest accrued | (3,947) | (2,566) | (3,659) | (3,578) | (2,453) | (202) | (4,477) |
| Increase (decrease) in working capital, as above | $ (1,283) | $ 47,379 | $ (16,712) | $ 55,037 | $ 36,101 | $ (2,891) | $ 75,312 |

## BELL CANADA AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF PREMIUM ON CAPITAL STOCK

(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| **Balance at beginning of period** | $366,330 | $373,925 | $375,264 | $376,879 | $378,385 | $378,385 | $384,330 |
| Premium on common shares issued during the period | 7,595 | 1,339 | 1,615 | 1,506 | 5,945 | 550 | 47,586 |
| **Balance at end of period** | $373,925 | $375,264 | $376,879 | $378,385 | $384,330 | $378,935 | $431,916 |

## CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| **Balance at beginning of period** | $ — | $ 7,357 | $ 7,357 | $ 7,357 | $ 15,883 | $ 15,883 | $ 15,549 |
| Increase (decrease) arising on consolidation from the issues of shares by subsidiaries | 7,357 | — | — | 8,526 | (334) | — | (257) |
| **Balance at end of period** | $ 7,357 | $ 7,357 | $ 7,357 | $ 15,883 | $ 15,549 | $ 15,883 | $ 15,292 |

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| **Balance at beginning of period** | $225,879 | $259,526 | $300,735 | $364,172 | $449,043 | $449,043 | $537,331 |
| Net income | 132,802 | 151,230 | 175,486 | 205,371 | 224,436 | 117,497 | 114,465 |
| Excess of par value over cost of preferred shares, purchased for cancellation (Note 3) | — | — | — | — | 98 | 21 | 62 |
| | 358,681 | 410,756 | 476,221 | 569,543 | 673,577 | 566,561 | 651,858 |
| *Deduct:* | | | | | | | |
| Cash dividends — | | | | | | | |
| Preferred shares — | | | | | | | |
| $3.20 shares | 5,706 | 6,400 | 6,399 | 6,399 | 6,182 | 3,187 | 1,670 |
| $3.34 shares | — | 2,950 | 6,680 | 6,680 | 6,668 | 3,340 | 2,477 |
| $4.23 shares | — | — | — | — | 980 | — | 4,226 |
| $2.28 shares | — | — | — | — | — | — | 200 |
| $2.25 shares | — | — | — | 941 | 3,764 | 1,899 | 1,833 |
| | 5,706 | 9,350 | 13,079 | 14,020 | 17,594 | 8,426 | 10,406 |
| Common shares | 90,656 | 97,202 | 97,542 | 105,268 | 115,940 | 57,742 | 67,105 |
| | 96,362 | 106,552 | 110,621 | 119,288 | 133,534 | 66,168 | 77,511 |
| Expenses of issue of capital stock | 2,793 | 3,469 | 1,428 | 1.212 | 2,712 | — | 2,200 |
| | 99,155 | 110,021 | 112.049 | 120,500 | 136,246 | 66.168 | 79,711 |
| **Balance at end of period** | $259,526 | $300,735 | $364,172 | $449,043 | $537,331 | $500,393 | $572,147 |

## BELL CANADA

### (parent company)

## INCOME STATEMENT

### (thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| Operating revenues | | | | | | | |
| Local service | $ 512,363 | $ 568,153 | $ 629,701 | $ 698,082 | $ 774,474 | $ 373,060 | $ 425,707 |
| Long distance service | 382,180 | 406,689 | 464,905 | 552,109 | 637,699 | 307,881 | 353,733 |
| Miscellaneous — net | 42,093 | 43,945 | 30,810 | 25,013 | 27,950 | 14,418 | 15,762 |
| **Total Operating Revenues** | **936,636** | **1,018,787** | **1,125,416** | **1,275,204** | **1,440,123** | **695,359** | **795,202** |
| Operating expenses | 623,932 | 691,963 | 766,414 | 875,988 | 1,010,715 | 482,780 | 588,212 |
| **Net Operating Revenues** | **312,704** | **326,824** | **359,002** | **399,216** | **429,408** | **212,579** | **206,990** |
| Other income | | | | | | | |
| Interest charged to construction | 7,870 | 10,128 | 9,894 | 9,957 | 14,258 | 6,603 | 8,429 |
| Miscellaneous | 16,716 | 19,658 | 22,309 | 29,321 | 30,372 | 15,335 | 16,597 |
| **Total Other Income** | **24,586** | **29,786** | **32,203** | **39,278** | **44,630** | **21,938** | **25,026** |
| **Income before Underlisted Items** | **337,290** | **356,610** | **391,205** | **438,494** | **474,038** | **234,517** | **232,016** |
| Interest charges | | | | | | | |
| Interest on long term debt | 74,339 | 86,215 | 97,683 | 112,288 | 122,288 | 57,790 | 74,908 |
| Other interest | 3,158 | 979 | 1,018 | 937 | 5,302 | 1,655 | 1,404 |
| **Total Interest Charges** | **77,497** | **87,194** | **98,701** | **113,225** | **127,590** | **59,445** | **76,312** |
| **Income before Income Taxes and Extraordinary Items** | **259,793** | **269,416** | **292,504** | **325,269** | **346,448** | **175,072** | **155,704** |
| Income taxes (Note 9) | 126,531 | 122,126 | 126,808 | 149,759 | 161,138 | 80,323 | 69,976 |
| **Income before Extraordinary Items** | **133,262** | **147,290** | **165,696** | **175,510** | **185,310** | **94,749** | **85,728** |
| Extraordinary items (Note C) | — | — | (908) | 5,396 | — | — | — |
| **Net Income** | **133,262** | **147,290** | **164,788** | **180,906** | **185,310** | **94,749** | **85,728** |
| Dividends on preferred shares | 5,706 | 9,350 | 13,079 | 14,020 | 17,594 | 8,426 | 10,406 |
| **Net Income Applicable to Common Shares** | **$ 127,556** | **$ 137,940** | **$ 151,709** | **$ 166,886** | **$ 167,716** | **$ 86,323** | **$ 75,322** |
| **Earnings per Common Share*** | | | | | | | |
| — before extraordinary items | $3.52 | $3.76 | $4.15 | $4.37 | $4.52 | $2.33 | $1.96 |
| — after extraordinary items | $3.52 | $3.76 | $4.12 | $4.52 | $4.52 | $2.33 | $1.96 |
| Assuming full conversion of convertible preferred shares | | | | | | | |
| — before extraordinary items | $3.51 | $3.72 | $4.06 | $4.26 | $4.40 | $2.26 | $1.94 |
| — after extraordinary items | $3.51 | $3.72 | $4.04 | $4.40 | $4.40 | $2.26 | $1.94 |
| *Based on average common shares outstanding (thousands) | 36,262 | 36,680 | 36,808 | 36,931 | 37,128 | 37,005 | 38,359 |
| **Dividends Declared per Common Share** | **$2.50** | **$2.65** | **$2.65** | **$2.85** | **$3.12** | **$1.56** | **$1.72** |

## BELL CANADA
### (parent company)

## BALANCE SHEET
### (thousands of dollars)

### ASSETS

| | June 30, 1975 |
|---|---|
| **Telecommunication Property** — at cost | |
| Buildings, plant and equipment | $5,778,051 |
| *Less:* Accumulated depreciation | 1,656,568 |
| | 4,121,483 |
| Land | 46,706 |
| Plant under construction | 265,502 |
| Material and supplies | 94,282 |
| | 4,527,973 |
| **Investments** — at cost | |
| Subsidiary companies | 331,420 |
| Other companies | 15,247 |
| | 346,667 |
| **Current Assets** | |
| Cash and temporary cash investments — at cost (approximates market) | 120,775 |
| Accounts receivable — | |
| Customers and agents (less provision for uncollectibles $1,500) | 162,104 |
| Other (including $4,323 from subsidiaries) | 19,255 |
| Other | 19,780 |
| | 321,914 |
| **Deferred Charges** | 32,816 |
| Total Assets | $5,229,370 |

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | |
|---|---|
| **Shareholders' Equity** (Notes 3 and 4) | |
| Capital stock — | |
| Preferred | $ 359,726 |
| Common | 982,549 |
| Premium on capital stock | 431,916 |
| Retained earnings | 458,406 |
| | 2,232,597 |
| **Long Term Debt** (Note 5) | 2,160,926 |
| **Notes Payable** (Note 6) | 17,448 |
| **Current Liabilities** | |
| Accounts Payable — | |
| Employees' payrolls | 15,283 |
| Vacation pay accrued | 9,044 |
| Other (including $57,895 to subsidiaries) | 123,195 |
| Advance billing for service | 29,700 |
| Dividends payable | 35,711 |
| Taxes accrued | 9,746 |
| Interest accrued | 36,146 |
| | 258,825 |
| **Deferred Credits** | |
| Income taxes | 538,666 |
| Unamortized investment tax credit | 11,364 |
| Employees' savings plan (Note 4) | 5,291 |
| Other | 4,253 |
| | 559,574 |
| **Commitments** (Note 7) | |
| Total Liabilities and Shareholders' Equity | $5,229,370 |

# BELL CANADA

(parent company)

## STATEMENT OF CHANGES IN FINANCIAL POSITION

(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| **Source of Funds** | | | | | | | |
| Operations — | | | | | | | |
| Income before extraordinary items | $ 133,262 | $ 147,290 | $ 165,696 | $ 175,510 | $ 185,310 | $ 94,749 | $ 85,728 |
| Items not affecting current funds — | | | | | | | |
| Depreciation | 183,850 | 198,438 | 228,033 | 257,096 | 287,632 | 143,655 | 163,004 |
| Deferred income taxes | 32,261 | 43,082 | 69,163 | 74,583 | 72,763 | 38,157 | 46,760 |
| Other — net | (4,006) | (5,865) | (5,139) | (4,558) | (8,119) | (3,863) | (4,988) |
| **Total from operations** | **345,367** | **382,945** | **457,753** | **502,631** | **537,586** | **272,698** | **290,504** |
| Extraordinary item | — | — | — | 5,396 | — | — | — |
| Adjustment to deferred income taxes (Note 9) | — | 9,641 | 29,405 | 22,398 | — | — | — |
| Proceeds from long term debt | 137,815 | 152,855 | 148,117 | 153,150 | 234,057 | 135,683 | 214,953 |
| Proceeds from notes payable (net) | — | — | — | — | 32,418 | 32,446 | — |
| Proceeds from preferred shares | 91,207 | 100,531 | — | 49,788 | 91,449 | — | 123,389 |
| Deposits under employees' savings plan | 14,595 | 4,882 | 4,698 | 4,814 | 5,038 | 2,515 | 2,677 |
| Decrease in working capital | 14,289 | — | 19,583 | — | 30,030 | 16,139 | — |
| Miscellaneous | 1,412 | 5,445 | 7,001 | 3,304 | 21,427 | 12,567 | 1,211 |
| | **$ 604,685** | **$ 656,299** | **$ 666,557** | **$ 741,481** | **$ 952,005** | **$ 472,048** | **$ 632,734** |
| **Disposition of Funds** | | | | | | | |
| Capital expenditures — | | | | | | | |
| Gross capital expenditures | $ 402,063 | $ 471,633 | $ 507,716 | $ 554,218 | $ 783,103 | $ 351,656 | $ 452,559 |
| *Deduct:* charges not requiring funds | (13,685) | (16,341) | (15,985) | (18,200) | (24,275) | (12,724) | (13,146) |
| Increase in material and supplies | 8,893 | 12,331 | 8,178 | 16,588 | 7,985 | 15,503 | 15,806 |
| **Net expenditures** | **397,271** | **467,623** | **499,909** | **552,606** | **766,813** | **354,435** | **455,219** |
| Dividends | 96,362 | 106,552 | 110,621 | 119,288 | 133,534 | 66,168 | 77,511 |
| Repayment of long term debt | 16,000 | — | 40,174 | 35,000 | 25,000 | 25,000 | 40,000 |
| Repayment of notes payable (net) | 75,765 | 8,250 | — | 10,000 | — | — | 14,970 |
| Acquisition of investments | 12,986 | 13,472 | 8,808 | 1,475 | 24,145 | 22,331 | 2,850 |
| Increase in working capital | — | 53,204 | — | 17,126 | — | — | 41,284 |
| Miscellaneous | 6,301 | 7,198 | 7,045 | 5,986 | 2,513 | 4,114 | 900 |
| | **$ 604,685** | **$ 656,299** | **$ 666,557** | **$ 741,481** | **$ 952,005** | **$ 472,048** | **$ 632,734** |
| **The increase (decrease) in working capital is accounted for by —** | | | | | | | |
| Increase (decrease) in current assets: | | | | | | | |
| Cash and temporary cash investments | $ 24,306 | $ 52,722 | $ (28,156) | $ 45,108 | $ (59,132) | $ (42,642) | $ 82,088 |
| Accounts receivable | (13,359) | 12,233 | 29,889 | 13,854 | 43,631 | 14,500 | (31,785) |
| Other | 1,711 | (4,892) | (7,125) | 1,217 | 142 | 9,712 | 13,105 |
| (Increase) decrease in current liabilities: | | | | | | | |
| Accounts payable | (8,038) | (20,950) | (7,661) | (12,823) | (17,331) | 3,178 | (15,241) |
| Advance billing for service | 2,285 | (1,637) | (2,506) | (2,257) | (3,189) | (1,317) | (2,248) |
| Dividends payable | (1,518) | (2,011) | (85) | (2,094) | (3,726) | (2,599) | (3,660) |
| Taxes accrued | (16,630) | 20,163 | (417) | (23,007) | 11,011 | 3,758 | 3,177 |
| Interest accrued | (3,046) | (2,424) | (3,522) | (2,872) | (1,436) | (729) | (4,152) |
| Increase (decrease) in working capital, as above | $ (14,289) | $ 53,204 | $ (19,583) | $ 17,126 | $ (30,030) | $ (16,139) | $ 41,284 |

## BELL CANADA
(parent company)

## STATEMENT OF RETAINED EARNINGS
(thousands of dollars)

| | Year ended December 31, | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1974 | 1975 |
| **Balance at beginning of period** | **$216,466** | **$250,573** | **$287,842** | **$342,009** | **$402,415** | **$402,415** | **$451,738** |
| Net income | 133,262 | 147,290 | 164,788 | 180,906 | 185,310 | 94,749 | 85,728 |
| Excess of par value over cost of preferred shares, purchased for cancellation (Note 3) | — | — | — | — | 98 | 21 | 62 |
| | 349,728 | 397,863 | 452,630 | 522,915 | 587,823 | 497,185 | 537,528 |
| *Deduct:* | | | | | | | |
| Cash dividends — | | | | | | | |
| Preferred shares — | | | | | | | |
| $3.20 shares | 5,706 | 6,400 | 6,399 | 6,399 | 6,182 | 3,187 | 1,670 |
| $3.34 shares | — | 2,950 | 6,680 | 6,680 | 6,668 | 3,340 | 2,477 |
| $4.23 shares | — | — | — | — | 980 | — | 4,226 |
| $2.28 shares | — | — | — | — | — | — | 200 |
| $2.25 shares | — | — | — | 941 | 3,764 | 1,899 | 1,833 |
| | 5,706 | 9,350 | 13,079 | 14,020 | 17,594 | 8,426 | 10,406 |
| Common shares | 90,656 | 97,202 | 97,542 | 105,268 | 115,940 | 57,742 | 67,105 |
| | 96,362 | 106,552 | 110,621 | 119,288 | 133,534 | 66,168 | 77,511 |
| Expenses of issue of capital stock | 2,793 | 3,469 | — | 1,212 | 2,551 | — | 1,611 |
| | 99,155 | 110,021 | 110,621 | 120.500 | 136,085 | 66,168 | 79,122 |
| **Balance at end of period** | **$250,573** | **$287,842** | **$342,009** | **$402,415** | **$451,738** | **$431,017** | **$458,406** |
| | | | | | | | |
| Dividends per share — | | | | | | | |
| Preferred shares — | | | | | | | |
| $3.20 shares | $2.85 | $3.20 | $3.20 | $3.20 | $3.20 | $1.60 | $1.60 |
| $3.34 shares | — | $1.06 | $3.34 | $3.34 | $3.34 | $1.67 | $1.67 |
| $4.23 shares | — | — | — | — | $0.49 | — | $2.11 |
| $2.28 shares | — | — | — | — | — | — | $0.04 |
| $2.25 shares | — | — | — | $0.46 | $2.25 | $1.12 | $1.12 |
| Common shares | $2.50 | $2.65 | $2.65 | $2.85 | $3.12 | $1.56 | $1.72 |

Statement of Premium on Capital Stock for Bell Canada (parent company) is not presented here because it is the same as Consolidated Statement of Premium on Capital Stock for Bell Canada and Subsidiary Companies.

## BELL CANADA AND SUBSIDIARY COMPANIES

## NOTES TO FINANCIAL STATEMENTS

*In the accompanying financial statements, the term "Bell Canada" refers to the parent company only and the term "Company" refers to Bell Canada and its subsidiary companies.*

*These notes should be read in conjunction with the Notes to Consolidated Income Statement of Bell Canada and Subsidiary Companies.*

### 1. Accounting Policies

*System of accounts* — Bell Canada and its telephone subsidiaries maintain a system of accounts that is generally similar to that used in the telecommunication industry.

*Consolidation* — The accounts of all companies in which Bell Canada owns more than 50% of the outstanding common shares have been included in the accompanying consolidated financial statements. These companies are:

| | % Ownership of Common Shares |
|---|---|
| *Northern Electric Company, Limited | 89 |
| Bell-Northern Research Ltd. (51% by Bell Canada and 49% by Northern Electric Company, Limited) | |
| The New Brunswick Telephone Company, Limited | 51.1 |
| Northern Telephone Limited | 99.7 |
| Newfoundland Telephone Company Limited | 99.8 |
| Télébec Ltée | 100 |
| Lièvre Valley Telephone Company | 100 |
| The Capital Telephone Company Limited | 100 |
| Telontario Incorporated | 100 |
| The North American Telegraph Company | 100 |
| **Maritime Telegraph and Telephone Company, Limited | 52.1 |

*At June 30, 1975 Bell Canada was the beneficial owner of 23,562,150 or 89% of the outstanding Common Shares of Northern Electric Company, Limited. Assuming exercise of the 1,999,650 warrants outstanding at June 30, 1975 the shareholding would be 81.5%. Each warrant entitles the holder to purchase from Bell Canada prior to December 1, 1979 one Common Share of Northern Electric at $21.50. These warrants were issued in 1974 together with Bell Canada $4.23 Cumulative Redeemable Convertible Voting Preferred Shares comprising the Units sold to underwriters. The value allocated to each warrant less related taxes, is included in the balance sheet caption "Deferred Credits — Other". At June 30, 1975, 1,999,650 Common Shares of Northern Electric have been deposited in escrow with the Warrant Trustee for that purpose.
See also Note 13(c)

**Maritime Telegraph and Telephone Company, Limited has been included because Bell Canada owns more than 50% of the outstanding common shares. At June 30, 1975, Bell Canada was the registered owner of 2,142,942 shares; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

For companies acquired since 1970, the excess of cost of shares over acquired equity is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $133,000 in 1972, $211,000 in 1973 and $395,000 in 1974 ($121,000 in the six months ended June 30, 1974 and $99,000 in the six months ended June 30, 1975).

Telecommunication equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Electric Company, Limited and its subsidiaries, is reflected in the consolidated balance sheet at cost to the purchasing companies, and in the consolidated income statement is included in Sales revenues — manufacturing and distributing. To the extent that any income on these sales by Northern Electric Company, Limited, has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. All other significant inter-company transactions have been eliminated in the accompanying consolidated financial statements.

Sales revenues — manufacturing and distributing comprise:

| | Year ended December 31, 1972 | 1973 | 1974 | Six months ended June 30, 1974 | 1975 |
|---|---|---|---|---|---|
| | (thousands of dollars) | | | | |
| Sales to: | | | | | |
| Bell Canada | $297,983 | $316,983 | $461,883 | $226,859 | $278,930 |
| Telephone subsidiaries of Bell Canada | 22,231 | 29,406 | 60,814 | 26,552 | 36,241 |
| Sub-total | 320,214 | 346,389 | 522,697 | 253,411 | 315,171 |
| Sales to others | 214,811 | 267,383 | 449,529 | 207,429 | 231,716 |
| Total Sales | $535,025 | $613,772 | $972,226 | $460,840 | $546,887 |

*Telecommunication property* — Telecommunication property is stated at original cost. The major portion of telecommunication property, other than land and buildings, has been purchased from a subsidiary, Northern Electric Company, Limited, and is included in the balance sheet at cost to the purchaser. This treatment is generally accepted in the industry. It is impossible to identify such purchases over a long period of years but it is estimated that they represent about 55% to 60% of the total investment in telecommunication property. Northern Electric Company, Limited estimates that its rate of after-tax profit attributable to sales to Bell Canada (including items charged to other than Telecommunication Property) has been approximately 4.8% of such sales over the twenty year period ended December 31, 1974 and approximately 6.5% over the five years then ended.

*Investment tax credit* — This investment tax credit has been deferred and is being amortized by credits to income, as a reduction of income taxes, over the average estimated service life of telecommunication property.

*Income taxes* — Bell Canada and all subsidiaries use the tax allocation basis of accounting for income taxes. Reductions in income taxes relating to losses carried forward in subsidiaries are not recorded in the accounts until the date of realization is determined.

*Inventories* — Inventories held by the manufacturing and distributing subsidiaries are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories comprises material, labour and manufacturing overhead.

*Depreciation* — Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets. When depreciable telecommunication property, other than minor items thereof which are replaced, is retired, the amount at which such property has been carried in Telecommunication Plant is charged to Accumulated Depreciation.

*Maintenance and repairs* — The cost of maintenance and repairs of property, including replacements not effecting substantial betterments, is expensed currently.

*Research and development* — Research and development costs are expensed currently.

**2. Inventories**

Inventories were classified as follows at June 30, 1975:

| | (thousands of dollars) Consolidated |
|---|---|
| Manufacturing and distributing — | |
| Raw materials | $ 28,016 |
| Work-in-process | 121,248 |
| Finished goods | 87,062 |
| | $236,326 |

Manufacturing and distributing inventories at December 31, 1971, 1972, 1973, 1974 and June 30, 1974 amounted to $112,161,000, $112,545,000, $177,295,000, $255,900,000 and $243,975,000 respectively.

### 3. Capital Stock

*Authorized*

By Charter — $1,750,000,000 divided into Common Shares of the par value of $25 each, and into Preferred Shares.

By Shareholders — $1,750,000,000 divided into Common Shares of the par value of $25 each, and: (a) not more than 4,000,000 of a class of Preferred Shares to a maximum aggregate amount of $100,000,000; (b) not more than 9,000,000 of another class of Preferred Shares to a maximum aggregate amount of $225,000,000; and (c) not more than 12,000,000 of another class of Preferred Shares to a maximum aggregate amount of $300,000,000.

*Outstanding* at June 30, 1975:

| | (thousands of dollars) |
|---|---|
| Preferred Shares — | |
| Cumulative, Redeemable, Convertible and Voting | |
| 752,692 — $3.20 Shares of $47 par value | $ 35,377 |
| 1,088,333 — $3.34 Shares, Class B, Series B, of $52 par value | 56,593 |
| 2,000,000 — $4.23 Shares, Class C, Series D, of $47 par value | 94,000 |
| 5,000,000 — $2.28 Shares, Class C, Series E, of $25 par value | 125,000 |
| Cumulative, Redeemable and Voting | |
| 1,625,200 — $2.25 Shares, Class B, Series C, of $30 par value | 48,756 |
| | $359,726 |
| Common Shares — 39,301,962 Shares of $25 par value | $982,549 |

The $3.20 Preferred Shares are not redeemable prior to February 1, 1976, but may be redeemed thereafter at $47 plus a premium of $3.00 diminishing by $.50 at the end of each subsequent year to February 1, 1982, and thereafter at $47. Each $3.20 Preferred Share may be converted into one Common Share on or before February 1, 1982, and 752,692 Common Shares have been reserved for this purpose. At June 30, 1975, 1,247,308 of these shares had been converted (including 173,168 during 1974 and 1,073,953 during the six months ended June 30, 1975).

The $3.34 Preferred Shares, Class B, Series B, are not redeemable prior to August 1, 1977, but may be redeemed thereafter at $52 plus a premium of $3.00 diminishing by $.50 at the end of each subsequent year to August 1, 1983, and thereafter at $52. Each $3.34 Preferred Share may be converted into one Common Share on or before August 1, 1983, and 1,088,333 Common Shares have been reserved for this purpose. At June 30, 1975, 911,667 of these shares had been converted (including 25,325 during 1974 and 886,292 during the six months ended June 30, 1975).

In 1974, 2,000,000 $4.23 Preferred Shares, Class C, Series D, were issued at par. These shares are not redeemable prior to December 1, 1980, but may be redeemed thereafter at $47 plus a premium of $4.00 diminishing by $.70 at the end of each subsequent year to December 1, 1983, by $.60 at December 1, 1984, by $.70 at December 1, 1985, by $.60 at December 1, 1986, and thereafter at $47. Each $4.23 Preferred Share may be converted into one Common Share on or before December 1, 1986 and 2,000,000 Common Shares have been reserved for this purpose.

In 1975, 5,000,000 $2.28 Preferred Shares, Class C, Series E, were issued at par. These shares are not redeemable prior to July 2, 1981, but may be redeemed thereafter at $25 plus a premium of $2.00 diminishing by $.35 at the end of each subsequent year to July 2, 1986, by $.25 at July 2, 1987, and thereafter at $25. Two $2.28 Preferred Shares may be converted into one Common Share on or before July 2, 1987 and 2,500,000 Common Shares have been reserved for this purpose.

In 1973, 1,700,000 $2.25 Preferred Shares, Class B, Series C were issued at par. These shares are not redeemable prior to October 1, 1983, but may be redeemed thereafter at $30 plus a premium of $1.50 diminishing by $.375 at the end of each subsequent five year period to October 1, 2003, and thereafter at $30. Pursuant

to the conditions attaching to this issue of shares at June 30, 1975, 74,800 shares with a par value of $2,244,000 had been purchased and cancelled (51,000 shares with a par value of $1,530,000 during 1974 and 23,800 shares with a par value of $714,000 during the six months ended June 30, 1975).

At June 30, 1975, 211,128 Common Shares have been reserved for the Employees' Savings Plan (1966).

**4. Employees' Savings Plans**

Prior to July 1, 1970 employees of Bell Canada purchased Common Shares from Bell Canada under the terms of employees' savings plans by deductions from pay of a proportion of basic wages and by assignment of dividends from the shares so acquired.

Effective July 1, 1970 the payroll deduction portion of the existing Employees' Savings Plan (1966) was cancelled and replaced by the Employees' Savings Plan (1970) entitling employees to subscribe up to 10% of their basic wages, which, together with a company contribution (charged to operating expenses) not to exceed 2% of such basic wages, is used by a trustee to make monthly purchases of outstanding Common Shares of Bell Canada on the open market for the benefit of participating employees. The assignment of dividends for the purchase of shares under the Employees' Savings Plan (1966) continues for employees enrolled for such assignments prior to July 1, 1970. Purchases under the Employees' Savings Plan (1966) amounted to 128,544 shares in 1972, 128,998 shares in 1973, 139,925 shares in 1974 and 2,873 shares in the six months ended June 30, 1975 for an aggregate consideration of $4,825,000, $4,730,000, $4,950,000 and $102,000 respectively. Proceeds in excess of par value were credited to Premium on Capital Stock. At June 30, 1975 deposits received from employees, plus interest, aggregated $5,291,000.

## 5. Long Term Debt

*Bell Canada:*

First Mortgage Bonds (secured by a first mortgage and a floating charge)

| Maturity Date | Rate of Interest | Series | Authorized (thousands of dollars) | Outstanding (thousands of dollars) |
|---|---|---|---|---|
| May 1, 1976 | 3½ % | I | $ 40,000 | $ 40,000 |
| March 1, 1977 | 3 % | E | 35,000 | 35,000 |
| May 1, 1977 | 8 % | AN | 55,000(a) | 54,747(a) |
| January 2, 1978 | 6¼ % | R | 35,000 | 35,000 |
| November 1, 1978 | 7⅝ % | AK | 10,000 | 10,000 |
| November 15, 1978 | 7½ % | AU | 25,000 | 25,000 |
| May 15, 1979 | 3¾ % | K | 40,000 | 40,000 |
| June 3, 1979 | 9¾ % | BF | 45,000 | 45,000 |
| December 1, 1979 | 9⅛ % | AR | 25,000 | 25,000 |
| April 1, 1980 | 8 % | BI | 40,000 | 40,000 |
| July 2, 1980 | 5¼ % | Q | 30,000 | 30,000 |
| August 1, 1980 | 8 % | AX | 32,000 | 32,000 |
| April 1, 1981 | 6 % | AC | 13,500 | 13,500 |
| May 1, 1981 | 7¾ % | BC | 15,000 | 15,000 |
| June 1, 1981 | 4 % | M | 24,000 | 24,000 |
| January 2, 1982 | 5½ % | V | 40,000 | 40,000 |
| August 2, 1982 | 5¾ % | T | 50,000 | 50,000 |
| March 15, 1983 | 4¼ % | P | 50,000(b) | 50,000(b) |
| June 15, 1984 | 5½ % | W | 30,000 | 30,000 |
| October 1, 1984 | 5¾ % | Y | 30,000 | 30,000 |
| August 1, 1985-1997 | 8⅜ % | AZ | 26,000(c) | 26,000(c) |
| January 2, 1986 | 6 % | U | 35,000 | 35,000 |
| July 15, 1987 | 6⅛ % | AE | 35,000 | 35,000 |
| May 1, 1988 | 4⅞ % | X | 50,000(b) | 50,000(b) |
| November 1, 1988 | 6¼ % | AH | 50,000 | 50,000 |
| January 15, 1989 | 9 % | AP | 30,000(d) | 30,000(d) |
| October 1, 1989 | 4.80% | Z | 50,000(b) | 50,000(b) |
| February 1, 1990 | 6⅜ % | AG | 30,000 | 30,000 |
| May 1, 1990 | 8¼ % | AO | — (a) | 253(a) |
| August 14, 1990 | 9⅜ % | AQ | 50,000 | 50,000 |
| April 1, 1991 | 6 % | AD | 26,500 | 26,500 |
| November 1, 1991 | 7⅝ % | AL | 30,000 | 30,000 |
| March 15, 1992 | 8 % | AT | 65,000 | 65,000 |
| September 15, 1992 | 6¾ % | AI | 45,000 | 45,000 |
| April 14, 1993 | 8 % | AW | 50,000 | 50,000 |
| August 1, 1993 | 8⅜ % | AY | 42,000 | 42,000 |
| December 1, 1993 | 9⅜ % | AS | 35,000 | 35,000 |
| April 1, 1994-2003 | 7⅞ % | BB | 40,000(b, e) | 40,000(b, e) |
| May 1, 1994 | 8⅛ % | BD | 50,000 | 50,000 |
| November 15, 1994 | 8 % | AV | 65,000 | 65,000 |
| December 1, 1994 | 10½ % | BH | 60,000(f) | 60,000(f) |
| June 1, 1995-2004 | 9½ % | BE | 130,000(b, g) | 130,000(b, g) |
| September 1, 1995 | 4.85% | AA | 50,000(b) | 50,000(b) |
| December 1, 1995 | 4.85% | AB | 28,000(b) | 28,000(b) |
| June 3, 1996 | 10 % | BG | 70,000 | 70,000 |
| October 14, 1996 | 6 % | AF | 44,000(b) | 44,000(b) |
| February 1, 1997 | 8 % | BA | 50,000 | 50,000 |
| December 1, 1997 | 6.60% | AJ | 51,000(b) | 51,000(b) |
| September 17, 1998 | 6.90% | AM | 75,000(b) | 75,000(b) |
| April 1, 1999 | 9⅞ % | BJ | 110,000 | 110,000 |
| | | | $2,137,000 | 2,137,000 |

| | |
|---|---|
| Exchange premium less discount, at time of issue, on bonds payable in United States funds | 23,926(h) |
| Total — Bell Canada | 2,160,926 |

*Subsidiaries:*

| | |
|---|---|
| Northern Electric Company, Limited (Consolidated) | 106,135 |
| The New Brunswick Telephone Company, Limited (Consolidated) | 74,310 |
| Northern Telephone Limited (Consolidated) | 26,240 |
| Newfoundland Telephone Company Limited | 53,882 |
| Télébec Ltée | 389 |
| Maritime Telegraph and Telephone Company, Limited (Consolidated) | 141,114 |
| Total — Subsidiaries | 402,070(i) |
| Total — Consolidated | $2,562,996 |

(a) Series AN Bonds are exchangeable at the option of the holders on any interest payment date from November 1, 1970 to and including November 1, 1975 for First Mortgage 8¼% Bonds, Series AO, to mature May 1, 1990.

(b) Payable in United States funds.

(c) Series AZ Bonds mature $2,000,000 per annum on August 1 in each of the years 1985 to 1997 inclusive.

(d) The holder of any Series AP Bond has the right to elect prior to July 15, 1975 that Bell Canada shall prepay the principal amount of such Bonds on January 15, 1976, and the holders of $7,215,000 of these Bonds have so elected as at June 30, 1975.

(e) Series BB Bonds mature $4,000,000 U.S. per annum on April 1 in each of the years 1994 to 2003 inclusive.

(f) The holder of any Series BH Bond will have the right to elect, after June 1, 1984 and prior to September 1, 1984, that Bell Canada shall prepay the principal amount of such Bonds on March 1, 1985.

(g) Series BE Bonds mature $13,000,000 U.S. per annum on June 1 in each of the years 1995 to 2004 inclusive.

(h) Based on the exchange rate at June 30, 1975 this premium would be $16,813,000.

(i) Interest rates and maturity dates of long term debt of subsidiaries are as follows:

| | (thousands of dollars) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Interest Rates | | | | | | Total Outstanding |
| Maturity Dates* | 3-5⅞% | 6-7⅞% | 8-9⅞% | 10-11% | Principally at Prime Bank Rate | Non-Interest Bearing | |
| First Mortgage Bonds | | | | | | | |
| 1976 | $2,000 | $ — | $ — | $ — | $ — | $ — | $ 2,000 |
| 1977 | 1,215 | — | 6,000 | — | — | — | 7,215 |
| 1978 | 4,840 | 500 | — | — | — | — | 5,340 |
| 1979 | — | 820 | — | — | — | — | 820 |
| 1980 | 4,000 | 1,720 | — | — | — | — | 5,720 |
| 1981-85 | 13,250 | 327 | — | — | — | — | 13,577 |
| 1986-90 | 3,000 | 11,000 | 2,721 | — | — | — | 16,721 |
| 1991-95 | — | 5,500 | 72,430 | 23,500 | — | — | 101,430 |
| 1996 | — | — | — | 42,500 | — | — | 42,500 |
| Debentures and Other | | | | | | | |
| 1975 | — | 2 | 60 | — | 88 | 3,119 | 3,269 |
| 1976 | 9,958 | — | — | — | 568 | 1,583 | 12,109 |
| 1977 | 2,000 | — | — | — | 35,664 | 1,583 | 39,247 |
| 1978 | 1,455 | — | — | — | 759 | 397 | 2,611 |
| 1979 | 3,000 | — | — | — | 768 | 47 | 3,815 |
| 1980 | — | — | — | — | 768 | — | 768 |
| 1981-85 | 25,984 | 1,707 | 4,400 | — | 1,536 | — | 33,627 |
| 1986-90 | — | 33,094 | 42,607 | 2,000 | — | — | 77,701 |
| 1991-95 | — | — | 7,100 | 4,500 | — | — | 11,600 |
| 1996-97 | — | — | 22,000 | — | — | — | 22,000 |
| | $70,702 | $54,670 | $157,318 | $72,500 | $40,151 | $6,729 | $402,070 |

*Excludes sinking fund requirements.

At June 30, 1975 the amount of long term debt payable, including sinking fund requirements, by Bell Canada and subsidiary companies in the years 1975 through 1980 is $3,428,000, $62,959,000, $139,833,000, $81,492,000, $118,584,000 and $112,337,000 respectively.

## 6. Notes Payable

Details of notes payable, issued for purposes of interim financing, are as follows:

| | (dollars in thousands) | |
|---|---|---|
| | Promissory notes of Bell Canada | Bank loans of Subsidiaries |
| i) Amounts outstanding at June 30, 1975 ($64,445 in total) .... | $17,448 | $46,997 |
| ii) Maximum amounts outstanding at any month-end during the six months ended June 30, 1975 .......... | $45,855 | $46,997 |
| iii) Average amounts outstanding during the six months ended June 30, 1975 .......... | $26,449 | $36,184 |
| iv) Weighted average annual interest rates during the six months ended June 30, 1975 .......... | 8.3% | 9.2% |

## 7. Lease Commitments

The Company is party to certain non-cancellable leases for property and equipment used in the performance of its business. At June 30, 1975 the aggregate minimum annual rental commitments for all such leases, and the commitments for non-capitalized financing leases included therein, are approximately as follows:

| Year | (thousands of dollars) Consolidated Aggregate | Financing | Bell Canada Aggregate | Financing |
|---|---|---|---|---|
| 1975 | $44,032 | $13,181 | $33,705 | $ 9,868 |
| 1976 | 44,067 | 13,106 | 33,715 | 9,953 |
| 1977 | 38,865 | 10,785 | 29,392 | 7,978 |
| 1978 | 26,993 | 9,769 | 19,546 | 7,478 |
| 1979 | 22,105 | 8,636 | 16,033 | 6,806 |
| 1980 | 16,902 | 7,720 | 12,530 | 6,288 |
| 1981-85 | 55,725 | 32,344 | 45,037 | 24,855 |
| 1986-90 | 37,483 | 27,370 | 30,695 | 20,894 |
| 1991-95 | 27,380 | 19,203 | 25,426 | 17,496 |
| Thereafter | 31,328 | 26,604 | 31,054 | 26,604 |

Bell Canada has agreed to purchase a mortgage for a sum not to exceed $37,106,000 in the event of mortgage payment default by the owner of a building. In such event the lease commitments mentioned above will be reduced by approximately $74,837,000.

## 8. Pensions

Bell Canada and most of its subsidiary companies have non-contributory plans which provide for service pensions based on length of service and rates of pay. The last actuarial reviews of December 31, 1973 indicated that all vested benefits were fully funded and that on a winding-up basis no unfunded liability existed in respect of past service pension costs.

The total provisions for the cost of pension plans were:

| Period | (thousands of dollars) Consolidated | Bell Canada |
|---|---|---|
| Year ended December 31, | | |
| 1972 | $45,094 | $26,300 |
| 1973 | 52,174 | 30,984 |
| 1974 | 66,191 | 38,910 |
| Six months ended June 30, | | |
| 1974 | 30,985 | 18,988 |
| 1975 | 47,637 | 32,293 |

Bell Canada has agreed to pay two officers, in addition to the regular pension benefits payable to them on or after retirement, a retiring allowance. The total liability for such allowances, which is funded, aggregated $140,000 for 1973, $170,000 for 1974 and $19,167 for the six months ended June 30, 1975.

## 9. Income Taxes

Bell Canada's effective income tax rate as determined from the income statement (aggregate income taxes divided by the sum of aggregate income taxes and net income) was different from the statutory (Canadian Federal and Provincial) income tax rate for each of the periods shown, and the differences are attributable to the following factors:

| | Year ended December 31, 1972 | 1973 | 1974 | Six months ended June 30, 1974 | 1975 |
|---|---|---|---|---|---|
| Statutory income tax rate | 48.5% | 51.0% | 52.5% | 51.3% | 51.5% |
| (i) Items not subject to tax: | | | | | |
| (a) Income from investment in subsidiaries included in net income | (3.7) | (3.8) | (4.0) | (3.4) | (4.3) |
| (b) Interest charged to construction, net of applicable depreciation adjustment | (1.4) | (1.2) | (1.7) | (1.5) | (2.1) |
| (ii) Other miscellaneous differences between the calculations of taxable income and book income before taxes, and outright reductions of taxes for the period resulting from investment tax credits and grants | 0.1 | 0.2 | (0.3) | (0.5) | (0.1) |
| Effective income tax rate | 43.5% | 46.2% | 46.5% | 45.9% | 45.0% |

Details of Bell Canada's income taxes are as follows:

| | Year ended December 31, 1972 | 1973 | 1974 | Six months ended June 30, 1974 | 1975 |
|---|---|---|---|---|---|
| | (thousands of dollars) | | | | |
| Current | $ 57,645 | $ 75,176 | $ 88,375 | $ 42,166 | $ 23,216 |
| Deferred | 69,163 | 74,583 | 72,763 | 38,157 | 46,760 |
| Total income taxes | $126,808 | $149,759 | $161,138 | $ 80,323 | $ 69,976 |

Deferred income taxes result from deductions for tax purposes, in respect of plant, being in excess of amounts currently charged to operations.

Adjustments to deferred income taxes have been made as a result of changes in methods of accounting for certain expenditures for income tax purposes.

## 10. Supplementary Income Statement Information

| | Year ended December 31, 1972 | 1973 | 1974 | Six months ended June 30, 1974 | 1975 |
|---|---|---|---|---|---|
| | (thousands of dollars) | | | | |
| Consolidated: | | | | | |
| (a) Maintenance and repairs | $228,490 | $250,863 | $304,195 | $142,359 | $173,476 |
| (b) Taxes other than income taxes | | | | | |
| Property and business | $ 18,465 | $ 19,538 | $ 21,349 | $ 11,148 | $ 12,648 |
| Gross receipts and net revenue | 27,593 | 44,999 | 47,479 | 24,152 | 26,875 |
| Payroll | 11,017 | 12,590 | 20,699 | 10,708 | 12,067 |
| Miscellaneous | 9,007 | 11,243 | 12,166 | 5,961 | 6,721 |
| Total | $ 66,082 | $ 88,370 | $101,693 | $ 51,969 | $ 58,311 |
| (c) Rental expense | $ 40,084 | $ 55,586 | $ 57,401 | $ 27,613 | $ 34,265 |
| (d) Depreciation — percentage of average depreciable Telecommunication and Other Property (annual basis) | 5.51% | 5.73% | 5.97% | 6.11% | 6.10% |
| (e) Depreciation and amortization of Telecommunication and Other Property | $274,391 | $311,704 | $359,199 | $178,822 | $200,588 |
| (f) Research and development expenses | $ 43,936 | $ 51,001 | $ 65,855 | $ 28,979 | $ 33,713 |

| | Year ended December 31, 1972 | 1973 | 1974 | Six months ended June 30, 1974 | 1975 |
|---|---|---|---|---|---|
| | (thousands of dollars) | | | | |
| Bell Canada: | | | | | |
| (a) Maintenance and repairs | $193,435 | $212,721 | $249,479 | $117,081 | $141,125 |
| (b) Taxes other than income taxes | | | | | |
| Property and business | $ 11,506 | $ 12,392 | $ 13,432 | $ 7,321 | $ 7,952 |
| Gross receipts and net revenue | 27,377 | 44,452 | 46,933 | 23,803 | 26,642 |
| Payroll | 6,722 | 7,475 | 10,928 | 4,985 | 5,952 |
| Miscellaneous | 8,275 | 10,429 | 11,753 | 5,802 | 6,563 |
| Total | $ 53,880 | $ 74,748 | $ 83,046 | $ 41,911 | $ 47,109 |
| (c) Rental expense | $ 26,125 | $ 38,297 | $ 41,645 | $ 19,454 | $ 25,761 |
| (d) Depreciation — percentage of average depreciable Telecommunication Property (annual basis) | 5.50% | 5.67% | 5.82% | 5.95% | 6.02% |
| (e) Depreciation and amortization of Telecommunication Property | $228,033 | $257,096 | $287,632 | $143,655 | $163,004 |
| (f) Research and development expenses | $ 15,142 | $ 17,461 | $ 19,981 | $ 8,540 | $ 9,142 |

## 11. Unused Bank Lines of Credit

At June 30, 1975, the Company had unused bank lines of credit, generally available at the prime bank rate of interest, of approximately $213,000,000 of which $100,000,000 was available to Bell Canada.

## 12. Application For Rate Increases

On May 30, 1975, Bell Canada filed an application with the Canadian Transport Commission ("CTC") for rate increases to become effective in two phases. Hearings on the first phase were held in July 1975, and

in a decision dated July 28, 1975 the CTC granted, effective August 9, 1975, one-half of the amount requested in this phase. The remaining half was not denied, but its further consideration was deferred until the hearing on the second phase scheduled to commence on October 27, 1975.

**13. Subsequent Events**

(a) On July 3, 1975, The New Brunswick Telephone Company, Limited issued and sold to underwriters \$25,000,000 of its 10⅞% Debentures, Series P to mature July 2, 1997 for the sum of \$24,500,000.

(b) Long term debt repaid by Northern Electric Company, Limited and one of its subsidiary companies in July 1975 was as follows:

(i) The bank term loan due in 1977 amounting to \$35,000,000 and \$2,000,000 of the bank term loan due 1976 to 1982.

(ii) Other debt amounting to \$6,729,000, including current liability of \$3,119,000.

(c) Bell Canada entered into an agreement with Canadian Underwriters on October 6, 1975 for the sale of 3,000,000 Units and intends to enter into an agreement with United States Underwriters on October 7, 1975 for the sale of an additional 2,250,000 Units. Each Unit consists of one Common Share of Northern Electric presently owned by Bell Canada and one-half of one Warrant of Bell Canada. A full Warrant is required to purchase one Common Share of Bell Canada at the exercise price of Cdn. \$46 per share on or prior to June 30, 1977. The aggregate consideration on the sale of these 5,250,000 Units is estimated at Cdn. \$132,586,000 after deducting underwriting commission.

## DESCRIPTION OF THE OFFERING

### Units

This Prospectus relates to an offering of 5,250,000 Units, each Unit consisting of one Common Share of Northern Electric, without nominal or par value, and one-half of one Warrant of Bell Canada. A full Warrant is required to purchase one Common Share of Bell Canada, of the par value of $25, at the exercise price set forth on the cover page of this Prospectus. The Northern Electric Common Shares and the Warrants will be traded separately from the date of the offering.

For a description of Northern Electric Common Shares see "Description of Capital Stock of Northern Electric".

### Warrants

The Warrants, evidenced by Warrant Certificates, will be issued under and pursuant to a Warrant Indenture between Bell Canada, Montreal Trust Company, as Warrant Agent, and Morgan Guaranty Trust Company of New York, as United States Warrant Agent, to be dated October 22, 1975 (the "Warrant Indenture").

Each Warrant will entitle the holder to purchase on or prior to June 30, 1977 one Common Share of Bell Canada, of the par value of $25, at the exercise price set forth on the cover page of this Prospectus. The Warrant Indenture will provide for adjustment in the number of Common Shares which the holder is entitled to receive upon exercise after any subdivision or consolidation of the outstanding Common Shares of Bell Canada. Fractional Warrants may not be exercised but may, in combination with other fractional Warrants, be exchanged for integral Warrants. Bell Canada will allot and reserve 2,625,000 of its Common Shares for issue upon exercise of the Warrants. After June 30, 1977 the Warrants will lapse and be void.

Warrant Certificates evidencing integral Warrants will be issued only in registered form. Fractional Warrants will be evidenced by bearer Warrant Certificates. Facilities for registration, transfer and exchange of Warrants will be maintained by Bell Canada at the offices of its Treasurer in the Cities of Montreal and Toronto, by the Warrant Agent at its principal offices in the Cities of Winnipeg, Calgary and Vancouver and by the United States Warrant Agent at its offices at 30 West Broadway, New York, N.Y. 10015. Warrants may be exercised by presentation and delivery of Warrant Certificates, appropriately completed and accompanied by payment, to the office of the Treasurer of Bell Canada in the City of Montreal and at the office of the United States Warrant Agent at 15 Broad Street, New York, N.Y. 10015.

For a description of Bell Canada Common Shares see "Description of Capital Stock of Bell Canada".

## CANADIAN FOREIGN INVESTMENT REVIEW ACT

The Canadian Foreign Investment Review Act (the "Act") provides, inter alia, that the acquisition by any person or group of persons of 5% or more of the voting shares of a corporation shall, unless the contrary is established, be deemed to constitute the acquisition of control of any business carried on by such corporation.

Such an acquisition of presumed control of a Canadian business by a "non-eligible person" as defined in the Act (which includes a United States citizen or a group or corporation controlled by a United States citizen) is subject to review under the Act.

Since Bell Canada will own approximately 62% of the outstanding voting shares in the capital stock of Northern Electric after completion of the sale of 5,250,000 Common Shares of Northern Electric and exercise of all outstanding warrants to purchase Northern Electric Common Shares, the presumption of acquisition of control of a Canadian business, outlined above, applied to the acquisition of Northern Electric shares could, in the opinion of Mr. Clive V. Allen, General Counsel of Northern Electric, Mr. Guy Houle, General Counsel of Bell Canada and McMaster, Meighen, Minnion, Patch, Cordeau, Hyndman & Legge, Canadian counsel for the Underwriters, readily be rebutted.

In the event that the acquisition of Bell Canada Common Shares by the exercise of Warrants would result in the acquisition of 5% (presently 2,495,471 shares) or more of all voting shares of Bell Canada by a "non-eligible person", such non-eligible person is obliged under the terms of the Act to give notice of acquisition of such Warrants to the Foreign Investment Review Agency in the prescribed form and manner.

## TAXES

### Canadian Taxes

*Income Taxes.* For income tax purposes, the cost (to the purchaser of the Unit) of the Northern Electric Common Share and one-half of one Warrant of Bell Canada comprised in the Unit will be determined by allocating the purchase price of the Unit between the components thereof in proportion to their respective fair market values on the date of purchase.

Upon the exercise of a Warrant for a Common Share of Bell Canada, the Warrantholder will not realize a capital gain or loss; the cost of such Common Share to the holder thereof will be equal to the exercise price of the Warrant plus the cost of the Warrant to him.

Provided that the taxpayer is not a trader or dealer in securities, the disposition of any Common Share of Northern Electric or any Common Share or Warrant or one-half of a Warrant of Bell Canada (other than upon the exercise of a Warrant as mentioned above) may give rise to a capital gain or loss for income tax purposes.

Dividends on a Common Share paid or credited by Northern Electric or Bell Canada to a non-resident of Canada will be subject to a withholding tax under the Income Tax Act (the "Act") at a rate which is currently 10%. The rate of withholding tax is 10% because Northern Electric and Bell Canada each has a "degree of Canadian ownership" for purposes of the Act. Northern Electric and Bell Canada will continue to have a degree of Canadian ownership under the present Act so long as they are resident in Canada and meet certain tests prescribed by the Act relating to the ownership of a percentage of their issued and outstanding shares by Canadian residents and to a percentage of their directors being resident in Canada. If a company does not have the required degree of Canadian ownership its dividends would be subject to the present standard rate of withholding tax of 15%.

The standard rate of withholding tax imposed by the Act will be increased after 1975 to 25%, provided that such increased rate may be reduced by treaty between Canada and the country of the shareholder's residence. There is at present in force a treaty between the United States and Canada specifying a maximum rate of 15% in the case of Canadian dividends paid or credited to individuals resident in the United States or corporations resident in and organized under the laws of the United States, and not having a permanent establishment in Canada. Under the Act the statutory rate of 25% or, if applicable, a lower treaty rate (15% in the case of the United States) will be reduced by 5% if there is the required degree of Canadian ownership. The United States Treasury Department includes Canada among the countries with which it is engaged in income tax treaty negotiations.

A non-resident of Canada will not realize a taxable capital gain under the Act on a disposition of a Common Share of Northern Electric or a Common Share or Warrant or one-half of a Warrant of Bell Canada unless the non-resident uses such capital property in carrying on business in Canada or, in the case of any such share, unless he (and/or persons with whom he did not deal at arm's length) owns 25% or more of the issued shares of any class of the company's capital stock at any time during such of the period of five years immediately preceding the disposition as is after 1971. A non-resident will not realize ordinary income under the Act on a disposition of a Common Share of Northern Electric or a Common Share or Warrant or one-half of a Warrant of Bell Canada unless such disposition gives rise to income in Canada from the carrying on of a business or trading or dealing in shares or the gain arises from an "adventure in the nature of trade" carried on by the non-resident in Canada.

*Inheritance Taxes*. There are no inheritance taxes presently imposed by the Government of Canada. The Provinces of Ontario, Quebec, British Columbia, Saskatchewan and Manitoba presently impose a succession duty.

There is lack of uniformity in the succession duty legislation of the various provinces. Succession duties may be payable in respect of Common Shares of Northern Electric and Warrants and Common Shares of Bell Canada at the time of death of the owner if (i) such owner is domiciled in a province imposing succession duties; (ii) a beneficiary is resident or domiciled in such a province; or (iii) the property is situate in such a province at that time.

**United States Taxes**

Dividends paid on Northern Electric Common Shares or on Bell Canada Common Shares acquired pursuant to exercise of the Warrants will be subject to United States income tax upon receipt by citizens or residents of the United States, and by United States corporations. United States corporations, and individual citizens or residents who itemize deductions, will generally be entitled to elect a tax credit, subject to certain limitations, with respect to Canadian income taxes withheld from such dividends. Taxpayers may claim a deduction for such taxes if they are not eligible for, or do not elect, a credit. (Under certain limited circumstances, non-resident aliens and foreign corporations may also be subject to United States income tax, and may be entitled to a credit or a deduction, as the case may be).

A purchaser's Federal income tax basis for Northern Electric Common Shares and Warrants (or half Warrants) for Bell Canada Common Shares will be determined by allocating the total purchase price for the Unit between such securities in proportion to their respective fair market values on the date of purchase. No gain or loss will be recognized upon the exercise of a Warrant to purchase Bell Canada Common Shares. The holding period for Bell Canada Common Shares will begin with and include the day on which a Warrant is exercised, and the Federal income tax basis for such shares will be the sum of the exercise price plus the tax basis of the Warrant. Gain or loss recognized upon the sale or exchange of Northern Electric Common Shares, Bell Canada Common Shares, or Warrants (or half Warrants), as the case may be, will be a long-term capital gain or loss if such security was held for more than six months and was a capital asset in the hands of the holder.

**General**

The above statements with respect to Canadian taxes are set forth in reliance upon the opinion of McMaster, Meighen, Minnion, Patch, Cordeau, Hyndman & Legge of Montreal and with respect to United States taxes are set forth in reliance upon the opinion of Davis Polk & Wardwell of New York City. It is the responsibility of the individual purchasers of the securities offered hereby to consult their tax advisers if they are in any doubt as to their tax position.

## UNDERWRITING AND PLAN OF DISTRIBUTION

Salomon Brothers, Merrill Lynch, Pierce, Fenner & Smith Incorporated, A. E. Ames & Co. Incorporated and Wood Gundy Incorporated, as Representatives of the U.S. Underwriters, and A. E. Ames & Co. Limited as Representative of the Canadian Underwriters, have severally agreed with Bell Canada to form and manage two groups of Underwriters to sell Units in the United States and in Canada and Europe, respectively. The U.S. Underwriters will not offer to sell or sell Units to Canadian persons or to persons they have reason to believe intend to resell in Canada and the Canadian Underwriters will not offer to sell or sell Units to United States persons or to persons they have reason to believe intend to resell in the United States, except in each case for transactions carried out through the respective Representatives pursuant to the Agreement between U.S. and Canadian Underwriters mentioned below. The aggregate number of Units to be purchased from Bell Canada and initially offered for sale through the U.S. Underwriters is 2,250,000 and the aggregate number of Units to be purchased from Bell Canada and initially offered for sale through the Canadian Underwriters is 3,000,000.

Subject to the terms and conditions set forth in the Underwriting Agreement with the U.S. Underwriters, Bell Canada has agreed to sell to each of the U.S. Underwriters named below, and each of the U.S. Underwriters has agreed, severally, to purchase, the number of Units set forth opposite its name below:

| Underwriter | Units |
|---|---|
| Salomon Brothers | 234,500 |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | 234,500 |
| A. E. Ames & Co. Incorporated | 77,300 |
| Wood Gundy Incorporated | 77,300 |
| Morgan Stanley & Co. Incorporated | 37,500 |
| The First Boston Corporation | 37,500 |
| Blyth Eastman Dillon & Co. Incorporated | 30,000 |
| Dillon, Read & Co. Inc. | 30,000 |
| Drexel Burnham & Co. Incorporated | 30,000 |
| Goldman, Sachs & Co. | 30,000 |
| Halsey, Stuart & Co. Inc. | 30,000 |
| Hornblower & Weeks-Hemphill, Noyes Incorporated | 30,000 |
| E. F. Hutton & Company Inc. | 30,000 |
| Kidder, Peabody & Co. Incorporated | 30,000 |
| Kuhn, Loeb & Co. | 30,000 |
| Lazard Frères & Co. | 30,000 |
| Lehman Brothers Incorporated | 30,000 |
| Loeb, Rhoades & Co. | 30,000 |
| Paine, Webber, Jackson & Curtis Incorporated | 30,000 |
| Reynolds Securities Inc. | 30,000 |
| Smith, Barney & Co. Incorporated | 30,000 |
| Wertheim & Co., Inc. | 30,000 |
| White, Weld & Co. Incorporated | 30,000 |
| Dean Witter & Co. Incorporated | 30,000 |
| Shearson Hayden Stone Inc. | 30,000 |
| ABD Securities Corporation | 17,200 |
| Basle Securities Corporation | 17,200 |
| Bear, Stearns & Co. | 17,200 |
| Alex. Brown & Sons | 17,200 |
| Daiwa Securities America Inc. | 17,200 |
| F. Eberstadt & Co., Inc. | 17,200 |
| EuroPartners Securities Corporation | 17,200 |
| Robert Fleming Incorporated | 17,200 |
| Harris, Upham & Co. Incorporated | 17,200 |
| Kleinwort, Benson Incorporated | 17,200 |
| Moseley, Hallgarten & Estabrook Inc. | 17,200 |
| New Court Securities Corporation | 17,200 |
| The Nikko Securities Co. International, Inc. | 17,200 |
| Nomura Securities International, Inc. | 17,200 |
| Oppenheimer & Co., Inc. | 17,200 |
| R. W. Pressprich & Co. Incorporated | 17,200 |
| L. F. Rothschild & Co. | 17,200 |
| Shields Model Roland Securities Incorporated | 17,200 |
| SoGen-Swiss International Corporation | 17,200 |
| Thomson & McKinnon Auchincloss Kohlmeyer Inc. | 17,200 |
| Spencer Trask & Co. Incorporated | 17,200 |
| Tucker, Anthony & R. L. Day | 17,200 |
| UBS-DB Corporation | 17,200 |
| Warburg Paribas Becker Inc. | 17,200 |
| Weeden & Co. Incorporated | 17,200 |
| Wood, Struthers & Winthrop Inc. | 17,200 |
| Yamaichi International (America), Inc. | 17,200 |
| Advest Co. | 9,000 |
| American Securities Corporation | 9,000 |
| Arnhold and S. Bleichroeder, Inc. | 9,000 |
| Bacon, Whipple & Co. | 9,000 |
| Robert W. Baird & Co. Incorporated | 9,000 |
| Bateman Eichler, Hill Richards Incorporated | 9,000 |
| William Blair & Company | 9,000 |
| Blunt Ellis & Simmons Incorporated | 9,000 |
| J. C. Bradford & Co., Incorporated | 9,000 |
| Butcher & Singer | 9,000 |
| Crowell, Weedon & Co. | 9,000 |
| Dain, Kalman & Quail, Incorporated | 9,000 |
| Edwards & Hanly | 9,000 |
| A. G. Edwards & Sons, Inc. | 9,000 |
| Fahnestock & Co. | 9,000 |
| Faulkner, Dawkins & Sullivan Securities Corp. | 9,000 |
| First of Michigan Corporation | 9,000 |
| Janney Montgomery Scott Inc. | 9,000 |
| Johnston, Lemon & Co. Incorporated | 9,000 |
| Ladenburg, Thalmann & Co. Inc. | 9,000 |
| Legg Mason/Wood Walker Div. of First Regional Securities, Inc. | 9,000 |
| Loewi & Co. Incorporated | 9,000 |
| McDonald & Company | 9,000 |
| Mitchell, Hutchins Inc. | 9,000 |
| Moore, Leonard & Lynch, Incorporated | 9,000 |
| New Japan Securities International Inc. | 9,000 |
| The Nippon Kangyo Kakumaru Securities Co., Ltd. | 9,000 |
| The Ohio Company | 9,000 |
| Piper, Jaffray & Hopwood Incorporated | 9,000 |
| Prescott, Ball & Turben | 9,000 |
| Rauscher Pierce Securities Corporation | 9,000 |
| Robertson, Colman, Siebel & Weisel | 9,000 |
| The Robinson-Humphrey Company, Inc. | 9,000 |
| Rotan Mosle Inc. | 9,000 |
| Stern Brothers & Co. | 9,000 |
| Sutro & Co. Incorporated | 9,000 |
| Ultrafin International Corporation | 9,000 |
| C. E. Unterberg, Towbin Co. | 9,000 |
| Wheat, First Securities, Inc. | 9,000 |
| William D. Witter, Inc. | 9,000 |
| Adams & Peck | 5,300 |
| Birr, Wilson & Co., Inc. | 5,300 |
| Boettcher & Company | 5,300 |
| Bosworth, Sullivan & Company, Inc. | 5,300 |
| The Chicago Corporation | 5,300 |
| Elkins, Stroud, Suplee & Co. | 5,300 |
| Foster & Marshall Inc. | 5,300 |
| Hambrecht & Quist | 5,300 |
| Herzfeld & Stern | 5,300 |
| J. J. B. Hilliard, W. L. Lyons, Inc. | 5,300 |
| Howard, Weil, Labouisse, Friedrichs Incorporated | 5,300 |
| Interstate Securities Corporation | 5,300 |
| Johnson, Lane, Space, Smith & Co., Inc. | 5,300 |
| The Milwaukee Company | 5,300 |
| Newhard, Cook & Co. Incorporated | 5,300 |
| Parker/Hunter Incorporated | 5,300 |
| Reinholdt & Gardner | 5,300 |
| Stern, Frank, Meyer & Fox, Incorporated | 5,300 |
| Stifel, Nicolaus & Company Incorporated | 5,300 |
| Underwood, Neuhaus & Co. Incorporated | 5,300 |
| Anderson & Strudwick, Incorporated | 3,000 |
| Baker, Watts & Co. | 3,000 |
| Black & Company, Inc. | 3,000 |
| Burgess & Leith | 3,000 |
| Davis, Skaggs & Co., Inc. | 3,000 |
| R. G. Dickinson & Co. | 3,000 |
| Equitable Securities Corporation | 3,000 |
| Ferris & Company Incorporated | 3,000 |
| First Mid America Inc. | 3,000 |
| Freehling & Co. | 3,000 |
| Furman Selz Mager Dietz & Birney Incorporated | 3,000 |
| Josephthal & Co. | 3,000 |
| Laidlaw-Coggeshall Inc. | 3,000 |
| Manley, Bennett, McDonald & Co. | 3,000 |
| A. E. Masten & Co. Incorporated | 3,000 |
| McDaniel Lewis & Co. | 3,000 |
| Wm. C. Roney & Co. | 3,000 |
| Total | 2,250,000 |

The Underwriting Agreement dated October 7, 1975 with the U.S. Underwriters provides that the several obligations of the U.S. Underwriters are subject to approval of certain legal matters by counsel and to certain other conditions precedent, including completion of the purchase of Units from Bell Canada by the Canadian Underwriters. In the event of default by any U.S. Underwriter, the Underwriting Agreement with U.S. Underwriters provides that, in certain circumstances, purchase commitments may be revised or such Underwriting Agreement may be terminated. Bell Canada has been advised by the Representatives of the U.S. Underwriters that the several U.S. Underwriters propose initially to offer the Units to the public at the public offering price set forth on the cover page of this Prospectus with respect to Units initially offered in the United States, and to certain dealers at such price less a concession not in excess of U.S. \$.75 per Unit. U.S. Underwriters may allow and such dealers may reallow a concession not in excess of U.S. \$.25 per Unit. After the initial public offering of the Units, the public offering price and such concessions may be changed.

Subject to the terms and conditions set forth in the Underwriting Agreement dated October 6, 1975 between Bell Canada and A. E. Ames & Co. Limited, Greenshields Incorporated, Dominion Securities Corporation Harris & Partners Limited, Wood Gundy Limited, McLeod, Young, Weir & Company Limited, Richardson Securities of Canada, Lévesque, Beaubien Inc. and a Canadian chartered bank, as Canadian Underwriters, Bell Canada has agreed to sell and the Canadian Underwriters have agreed to purchase on October 22, 1975, the Units to be purchased by the Canadian Underwriters at a price of Cdn. \$26.50 per Unit, payable in cash to Bell Canada against delivery, and Bell Canada has agreed to pay the Canadian Underwriters a commission of Cdn. \$1.25 per Unit. The obligations of the Canadian Underwriters under such Underwriting Agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated by them upon the occurrence of certain stated events. The Canadian Underwriters are, however, obligated to take up and pay for all Units purchased by Canadian Underwriters if any of the Units are purchased under such Underwriting Agreement.

Both Underwriting Agreements provide that Bell Canada is not required to sell any Units to either group of Underwriters unless Units are simultaneously sold to Underwriters under the other Underwriting Agreement. Additionally, the U.S. Underwriters and the Canadian Underwriters have entered into an agreement which will permit, subject to the terms and conditions set forth in such agreement, one group of Underwriters to purchase from the other group of Underwriters and offer for resale such Units as the selling group of Underwriters may from time to time have available to sell to the purchasing group of Underwriters. Units so purchased by the U.S. Underwriters from the Canadian Underwriters shall be at the price of Cdn. \$25.75 per Unit and Units so purchased by the Canadian Underwriters from the U.S. Underwriters shall be at the price of U.S. \$25.10 per Unit. Since any Units so purchased by U.S. Underwriters will be paid for in Canadian funds and resold for U.S. funds, the resulting conversion may result in gains or losses. Such gains, if any, may be deemed additional underwriting compensation.

Both Underwriting Agreements contain restrictions on the ability of Bell Canada and Northern Electric to sell equity securities of Bell Canada or Northern Electric prior to December 31, 1975, without the consent of the Underwriters.

The Underwriting Agreements provide that Bell Canada will indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or contribute to payments the U.S. Underwriters may be required to make in respect thereof, and under applicable securities legislation of the Provinces of Canada.

## LEGAL OPINIONS

Certain legal matters in connection with the offering of the securities offered hereby will be passed upon for Northern Electric by Mr. Clive V. Allen, General Counsel of Northern Electric, for Bell Canada by Mr. Guy Houle, General Counsel of Bell Canada, and for both companies by Davis Polk & Wardwell of New York City; and for the Underwriters by McMaster, Meighen, Minnion, Patch, Cordeau, Hyndman & Legge of Montreal, and by Cravath, Swaine & Moore of New York City. As of July 31, 1975 Mr. Allen did not own beneficially any Common Shares of Northern Electric and Mr. Houle owned beneficially 571 Common Shares and 10 Preferred Shares of Bell Canada.

The statements under "Taxes" with respect to Canadian taxes are set forth herein in reliance upon the opinion of McMaster, Meighen, Minnion, Patch, Cordeau, Hyndman & Legge and with respect to United States

taxes are set forth herein in reliance upon the opinion of Davis Polk & Wardwell. The statements under "Canadian Foreign Investment Review Act" and "Legal Proceedings" are set forth herein in reliance upon the opinion of counsel there named.

## EXPERTS

The financial statements of Northern Electric and its subsidiary companies and of Bell Canada and Bell Canada and its subsidiary companies included in this Prospectus have been examined by the auditors of Northern Electric and Bell Canada, Touche Ross & Co., 1 Place Ville Marie, Montreal, Quebec, independent chartered accountants, as indicated in their reports, and are included herein in reliance upon said reports and upon the authority of said firm as experts in auditing and accounting.

## FURTHER INFORMATION

Further information concerning Bell Canada and the Warrants and Common Shares of Bell Canada and Northern Electric and the Common Shares of Northern Electric appears in the Registration Statement of Bell Canada and Northern Electric and exhibits thereto which has been filed with the Securities and Exchange Commission in Washington, D.C.

5,250,000 Common Shares of

**Northern Electric**

**COMPANY, LIMITED**

With Warrants to purchase
2,625,000 Common Shares of

# Bell Canada

No dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer made by this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by Northern Electric, Bell Canada or any of the Underwriters. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of Northern Electric or Bell Canada since the date hereof. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities other than those to which it relates and does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

**Salomon Brothers**

**Merrill Lynch, Pierce, Fenner & Smith**
Incorporated

**A. E. Ames & Co.**
Incorporated

**Wood Gundy**
Incorporated

Prospectus

Dated October 7, 1975.

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